UNCTAD BULLETIN

MAY – JUNE 1994 NUMBER 26

IN THIS ISSUE

- World Investment Report 1994
- Board Conducts Review of the Cartagena Commitment
- Industrial Development in East Asia: What are the Lessons for Latin America?
- A Tax on Foreign Exchange Transactions to Restrain Currency Speculation
- Reviews on Regimes for International Capital Movements and Some Proposals for Reform; the Impact of Trade Liberalization in Least Developed Countries; Bank Credit, Small Firms and the Design of a Financial System for Eastern Europe; Economic Development and Endogenous Terms-of-Trade Determination; Finance and the Real Economy; Liberalizing International Transactions in Services; Transnational Corporations
- Notes on TNCs Commission; Seminar on Services in Africa; UNCTAD, CIS Agreement; Seminar on Telecommunications and Trade in Services; Workshop on Commodity Exchanges; Association of Port Jurists; Conference on Development, Environment and Mining; Workshop on Trading Opportunities; Maritime Management Training

UNITED NATIONS CONFERENCE
ON TRADE AND DEVELOPMENT

EDITORIAL

UNCTAD was established thirty years ago to promote international trade, particularly that of developing countries, with a view to accelerating their economic development. Since then it has generated ideas and policy initiatives, negotiated specific agreements and served as an instrument of technical cooperation in the pursuit of its development mission. UNCTAD's work has helped to sensitize world opinion to the North-South divide.

The world has changed radically since 1964. A major source of change has been the process of globalization of economic activities and of interdependence among countries and between sectors of the world economy. Some developing countries have benefitted from this process and advanced rapidly. However, many others – often reliant on primary commodities for their export earnings, burdened by debt or by increasing costs of capital imports or food purchases – have become marginalized from the mainstream of global economic activity. Per capita incomes have actually declined in several Latin American, African and West Asian countries since the early 1980s. Income distribution and access to productive resources, moreover, remains badly skewed: one fifth of the earth's population appropriates 85 per cent of total GNP, world trade, and global savings and investment.

It is indeed paradoxical that the marginalization of a large group of Third World economies should take place at a time of increasing globalization and interdependence. Clearly, the spontaneous play of market forces is unable alone to narrow the development gap. That requires specific remedial action by national governments and the international community.

Trade is a linchpin in the process of globalization, and hence in avoiding marginalization. The structurally weak economies must therefore be enabled to adapt to the liberalized, post-Uruguay Round trade regime so as to reap the promised benefits. Some economies will require compensation for the erosion of preferential tariffs resulting from the Round, others will need further assistance in diversifying their productive base, and yet others will require a safety net to cushion the impact of a liberalized world trade order on their manufacturing and services sectors. Countries burdened additionally by debt overhangs will have to be offered debt write-offs if they are to begin the process of capital accumulation which is a prerequisite for competing successfully on world markets.

UNCTAD has a distinct role to play in helping countries to overcome such problems. Over the past two years it has undergone a profound transformation, adapting work programmes and methods of work to new world realities, and is better placed to respond to the needs of its member States. In the field of trade, for example, two of its recently-created intergovernmental bodies are addressing topical issues related to post-Uruguay Round trading opportunities and to trade and environment. Their work will be reinforced by both the secretariat's ongoing research and its operational activities, such as the TRAINFORTRADE programme and the Trade Efficiency Initiative. UNCTAD can thus contribute on many levels to the efforts of its member States, particularly of the developing countries and countries in transition, to promote their development through trade.

The United Nations Conference on Trade and Development (UNCTAD) was set up by the General Assembly in 1964 as one of its permanent organs, mandated to promote international trade, particularly that of developing countries, with a view to accelerating their economic development. UNCTAD has evolved into a universal forum with a development perspective, in which member States review the interdependence of economies and of issues in trade, money and finance. UNCTAD is composed of 187 member States, including the 184 members of the United Nations; many intergovernmental and non-governmental organizations have observer status. The Conference normally meets every four years at ministerial level to establish policy guidelines. Between sessions, work is carried out by the Trade and Development Board and its standing committees, working groups and other subsidiary bodies. The problems of the least developed countries and of Africa's economic recovery receive special attention in UNCTAD's work. The UNCTAD staff-part of the United Nations Secretariat-numbers about 450 and is headed by a Secretary-General.

The "UNCTAD Bulletin" is published six times a year in English and French for public information. It is not an official UNCTAD document. Opinions expressed in signed articles are those of the authors and do not necessarily reflect the views of UNCTAD. Material may be freely quoted or reprinted, but acknowledgement is requested. Copies may be obtained free of charge from UNCTAD, Palais des Nations, 1211 Geneva 10, Switzerland. Tel.: (4122) 907 12 34, ext. 75716/75721; Telex 41 29 62; Fax 907 00 43.
Michael C. Bonello, Editor

TRANSNATIONAL CORPORATIONS INCREASINGLY INFLUENCE EMPLOYMENT AND THE WORKPLACE

The following press release was issued to mark the publication of the "World Investment Report 1994: Transnational Corporations, Employment and the Workplace" (WIR94).*

* * *

Policy-makers and trade unions need to find innovative ways to respond to the rapid changes in the global economy, among them the increasing transnationalization of the production of goods and services through transnational corporations (TNCs). Transnationalization influences employment, human resources development and industrial relations. The policy response to unemployment must therefore take account of a vastly more integrated world economy in which TNCs are playing an increasingly important role.

WIR94 estimates that TNCs now have global sales in excess of $4.8 trillion, a larger volume than world trade. Their number is rising, with some 37,000 parent firms controlling more than 200,000 foreign affiliates. The 100 largest TNCs (excluding those in banking and finance) ranked by foreign assets held $3.4 trillion in global assets in 1992, of which about 40 per cent were located outside their home countries.

Transnational corporations are estimated to employ directly, at home and abroad, around 73 million people, representing nearly 10 per cent of paid employment in non-agricultural activities worldwide, and close to 20 per cent in the developed countries alone. The recent increase in unemployment has refocused attention on the links between TNCs and the generation, location and upgrading of jobs. Transnational corporations, as a major force in the internationalization of economic activities, influence the quantity and quality of jobs available worldwide. Quantitatively, however, employment in TNCs has grown considerably more slowly than foreign direct investment (FDI) worldwide.

FDI Recession Over

WIR94 recalls that the recession in the early 1990s was accompanied by a decline in FDI which only ended in 1993. An upsurge in FDI flows to developing countries played a major role. Total 1993 flows were $195 billion, up from $171 billion in 1992, but lower than the $232 billion peak recorded in 1990. Developing countries attracted $80 billion, some 40 per cent of the global total, with China alone accounting for $26 billion. China was only surpassed by the United States which attracted $32 billion.

As for outward FDI, investors from the United States led the field in 1993 with a record outflow of $50 billion, with France in second place, followed by Japan and Germany, while the United Kingdom, which had been the largest outward investor in the second half of 1980s fell to fifth place.

The influence of direct investment by TNCs varies greatly among regions, with 57 per cent of total flows to developing countries going to South, East and South-East Asia. Investment flows to Latin America and the Caribbean in the early 1990s were more than twice as high as in the 1980s. FDI flows to Africa, however, only amounted to $3 billion, in spite of the good record of structural adjustment in many African countries. *WIR94* draws the conclusion that for Africa official development assistance will continue to be of great importance as a means of creating the basis for self-sustained growth, including an FDI-friendly environment.

Flows to Central and Eastern Europe in 1993 were just $5 billion, about the size of flows to Mexico alone, while the estimated stock of FDI in the region has reached some $13 billion, about as much as the FDI stock of Thailand. Thus, fears expressed a few years ago that FDI to Central and Eastern Europe would be at the expense of FDI to developing countries do not appear to have been justified.

Employment in TNC Affiliates Rises

The most striking aspects of TNC employment worldwide is that, by comparison with the substantial increase of FDI flows during the past decade, employment levels in TNCs as a whole stagnated. Employment in affiliates abroad, however, increased considerably. For example, in the case of United States and Swedish TNCs, during the past decade employment at home stagnated or declined, while that of their foreign affiliates rose. Particularly significant was the growth of employment in foreign affiliates of Japanese TNCs, which more than doubled during the

---

* *"The World Investment Report, 1994" (United Nations Publication, Sales No. E.94.II.A.14, pp. 482) may be obtained at the price of US$ 45 from the Sales Section, Palais des Nations, CH-1211 Geneva 10, Switzerland, Tel: (41 22) 907 2613, fax (41 22) 907 00 27; or from the United Nations Publications, Room DC2-853, United Nations Plaza, New York, N.Y. 10017, United States, Tel. (1 212) 963 8302, fax: (1 212) 963 3062.*

second half of the 1980s. In addition, the indirect employment effects of TNC activities are at least equal to the direct effects and probably much larger. For example, Nike (an American footwear company), currently employs 9,000 people, while nearly 75,000 people are employed by its independent subcontractors in different countries. *WIR94* estimates that, on this basis, the total number of jobs associated with TNCs worldwide may have been 150 million at the start of the 1990s.

The greater part of the increased employment in foreign affiliates has taken place in developing countries, rising from 7 million in 1985 to an estimated 12 million in 1992. A considerable share of the increase was concentrated in East and South-East Asia, in particular China, and in export processing zones in that region and elsewhere. However, the job-relocation effect of FDI is very limited. The number of jobs relocated from developed countries to developing countries through FDI is small, compared with the size of the total labour force in developed countries. In addition, the bulk of FDI is being determined by the search for natural resources and for markets, markets that cannot be well-served by exports, rather than by labour-cost differentials.

The workforce directly employed by foreign affiliates typically, but not always, enjoys better wages, conditions of work and social security benefits relative to those prevailing in domestic firms. Transnational corporations often provide labour with the opportunity to acquire additional knowledge and skills, particularly in the case of affiliates operating in developing countries. Accordingly, host country employees and the host economy can benefit from the upgrading of skills through employment in TNCs and the acquisition of new vocational and management skills through formal and on-the-job training.

Liberalizing FDI Policies

WIR94 points out that "the driving forces of technological progress and competition, combined with liberalization, have lowered barriers to international flows of goods, services and factors of production, increased the scope for international specialization and led to an unprecedented expansion in international economic transactions. Transnational corporations have played a leading role in this process, as traders, investors, disseminators of technology and movers of people". Integration through TNCs changes the character of the world economy, as production capacities are extended beyond national boundaries: some one third of world output is controlled by TNCs, and is thus becoming increasingly subject to internationally integrated corporate strategies that include intra-firm trade.

In the FDI area, liberalisation is the most important policy trend of the 1990s as part of broad-based efforts to attract foreign investors. A number of important multilateral and regional agreements bearing on FDI issues (in particular, the Uruguay Round of Multilateral Trade Negotiations, the North American Free Trade Agreement and the Single European Market), as well as the increasing number of bilateral investment treaties, have provided further momentum to unilateral FDI liberalisation drives at the national level. The widespread relaxation of FDI policies has increasingly redefined the relationships among the principal actors – firms, trade unions, governments.

Implications for TNCs, Trade Unions and Governments

In the case of TNCs, their growing role in the integration of the global economy implies increased social responsibilities. This has encouraged the business community to establish voluntary standards and individual firms to adopt their own corporate guidelines, especially in the area of human resources development.

For trade unions, whose international structures are typically weak, the liberalization trend means that they can count less on governments and hence need to rely more on their own efforts when pursuing their interests. This is particularly important because the transnational organization of production poses special challenges for nationally organized labour, especially owing to the international organizational scope of TNCs, on the one hand, and the mostly national scope of labour organizations, on the other. This situation is further exacerbated if governments compete for FDI and see trade unions as a deterrent to foreign investors. At the same time, since the pressures of competition require that firms need to reinvent themselves continuously through innovatory practices and corporate restructuring, and given the growing importance of created assets and the adoption by many TNCs of flexible production methods, the door is open for new forms of cooperation between TNCs and trade unions.

For governments, the challenge is "to ensure that the principal assets of their countries – their people – are as qualified as possible to be able to deal with the fast-changing demands of an integrated international production system. The network of micro-economic connections at the firm level is now so woven into the cross-border fabric of internalized and externalized patterns of producing and distributing goods and services that policy-makers have few options but to recognize the new landscape of international production and international competitiveness."

BOARD CONDUCTS REVIEW OF THE CARTAGENA COMMITMENT

As required by the Cartagena Commitment adopted by UNCTAD VIII in 1992, the Trade and Development Board has carried out a mid-term review of the work programme of UNCTAD's intergovernmental machinery and of its technical cooperation activities. At a special meeting in May, the Board made a generally positive assessment of the progress achieved in the implementation of the Cartagena Commitment and took a number of decisions inspired by that experience.

Structures, Working Methods Assessed

The general feeling among member States was that the policy and institutional reforms undertaken by UNCTAD VIII have proved beneficial and that the organization's work has become more relevant to their needs. The exchange of national experiences on such issues as privatization, trade efficiency, investment and financial flows and technology transfers had proved particularly valuable and had had a direct impact at the national policy-making level. The functioning of the ad hoc working groups composed of experts, an innovation introduced by UNCTAD VIII, was moreover characterized by a high technical level of discussions. The quality of the analytical work produced by the UNCTAD secretariat in support of the deliberations of the intergovernmental bodies was also recognized.

At the same time, the review exercise identified areas in which improvement was possible. In particular, several developing countries felt that with regard to the "progressive and dynamic sequence" envisaged by the Cartagena Commitment, involving identification of issues, analysis, consensus-building and negotiations, the last stage had been neglected. On this view the time has come for negotiations to be undertaken on a few issues which have been well developed in the last two years, such as environment and trade. These countries felt that launching a negotiating process would, furthermore, enhance UNCTAD's action-oriented approach, a desire shared by all member States. While developed countries did not fully share this concern, they reiterated their support for the implementation, as appropriate, of the progressive and dynamic sequence.

Further Institutional Changes

The Board went on to draw some important lessons from the post-UNCTAD VIII experience: both the structure of its subsidiary bodies and their working methods needed further streamlining in view of resource and calendar constraints; unnecessary duplication should be avoided, both within UNCTAD and between the work of UNCTAD's intergovernmental bodies and that of other organizations; the concerns of some countries, particularly the LDCs, needed to be better reflected in UNCTAD's work and their participation at meetings facilitated; and, finally, reflecting the concern referred to above, more attention needed to be given to making the outcomes of intergovernmental deliberations more action-oriented.

Acting upon these findings, the Board decided that the existing ad hoc working groups should be wound-up. Five such groups had been established by UNCTAD VIII, with a two-year life span. They dealt with specific topics related to investment and development finance, privatization, trade, technology transfer and trade efficiency. The Board further decided that the number of new ad hoc working groups should be limited to three. These will deal with trade, environment and development; trading opportunities in the new international trading context; and the role of enterprises in development.

The ad hoc Working Group on Trade, Environment and Development received a wide-ranging mandate which places UNCTAD in a central position in the implementation process of Agenda 21 in its areas of competence. Its establishment, which has since been welcomed by the Commission on Sustainable Development, strengthens UNCTAD's role as Task Manager for the UN system on trade and environment and should enable the organization to become an effective partner of the new World Trade Organization (WTO) in its discussions on this issue.

Similarly, the ad hoc Working Group on Trading Opportunities in the New International Trading Context gives UNCTAD a significant role in the assessment and implementation of the Uruguay Round results. It is noteworthy that all countries, including major trading partners, strongly supported the work of UNCTAD in this area. The Board also agreed to the holding of a seminar on regional economic arrangements and their relationship with the multilateral trading system. In addition, it will consider at an early meeting new and emerging issues in the international trading system.

With regard to trade efficiency, which will be the subject of a United Nations International Symposium in October, the Board decided to set up a preparatory committee. The Board itself will meet at the earliest possible opportunity after the Symposium to consider such follow-up work as might be needed.

The ad hoc Working Group on the Role of Enterprises in Development will analyze the interrela-

(continued on page 10)

INDUSTRIAL DEVELOPMENT IN EAST ASIA: WHAT ARE THE LESSONS FOR LATIN AMERICA?

David Felix *

According to a recent World Bank study[1], the main lessons for other industrializing countries from the economic success of the High-Performing Asian Economies (HPAEs), *i.e.* Japan, Hong Kong, Korea, Singapore, Taiwan Province of China, Indonesia, Malaysia, Thailand, boil down to:

- Save and invest large proportions of GDP.
- Spend heavily on education, notably on pre-university general and educational schooling.
- Keep income inequality moderate.
- Do it with "market friendly" policies that maintain macroeconomic stability, promote private initiative in liberated markets, focus public investment primarily on social and physical infrastructure, and keep market intervention within "well-defined limits."

For Latin America, however, the first three lessons are scarcely revelations; as political platitudes they have long attained broad acceptance in the region. Yet, although most Latin American countries have in recent years been liberalizing their economies with greater alacrity than most HPAEs, savings and investment rates remain much lower, income distribution more unequal, and economic growth more fragile in Latin America than in East Asia. The World Bank study tries but is deficient in relating these persisting divergences to either policy differences or to underlying institutional and behavioral differences between the two regions.

On Policy Differences

The study acknowledges the validity of what it pejoratively dubs the "revisionist view," that the development strategy of most of the HPAEs has been much more interventionist than is called for by the Bank's "market friendly" specifications. Much of the study is devoted, therefore, to a flawed three-layered effort to show that the HPAEs are, nevertheless, "market friendly" success stories: (i) that they distorted relative prices less and ran smaller fiscal deficits than did other industrializing developing countries; (ii) their selective industrial promotion was superfluous, since similar industrial structures would have evolved "naturally" from market forces responding to factor and technological accumulation; and (iii) that they were more open to foreign trade and capital than Latin American industrializers.

The flaws, factual and conceptual, are examined in detail in the *Discussion Paper*. Essentially, the World Bank's comparative statistics leave (i) unproven; the econometrics used to support (ii) bias the testing by a priori mispecifications, and (iii) relies heavily on assertions about comparative openness to foreign capital that contradict well-established facts.

The unqualified view permeating the study, that "market friendliness" is a first-best industrialization strategy for all late-industrializers regardless of initial conditions probably reflects the Bank's board room more than its research shop. The global claim does not hold up well; recent research shows that: the poorer the economy the more the free market exchange rate overprices the relative domestic prices of internationally traded goods; GDP growth rates correlate positively and strongly with exchange rate overvaluation; the poorer the economy the more do international markets elevate the price of machinery and equipment relative to domestic consumer goods; the growth rate of total factor productivity (TFP) correlates strongly with the ratio of machinery and equipment investment to GDP, whereas the ratio of infrastructure investment to GDP correlates weakly with TFP.

These findings contravene two specifics of the Bank's "market friendly" strategy. Its advice that developing countries should deliberately undervalue their market exchange rate would further distort relative prices; and its advice to concentrate on infrastructure investment and eschew protective nurturing of domestic capital goods would retard the growth of TFP. Collectively the above findings rationalize a dirigiste industrialization strategy in which the excess demand for foreign exchange is contained by selective rationing and many of the resulting gains from trade used to nurture the capital goods sector.

On the Political Economy of Industrialization Strategy

By undermining the universality of the economic case for "market friendliness", the findings shift the debate to institutional and political economy requisites for effective implementation of either strategy. The study highlights two conditions that accounted for the effective strategy implementation of the HPAEs. They started with a relatively equitable distribution of land that facilitated a broad-based distribution of credit and social

* *Professor of Economics Emeritus, Washington University in St. Louis. This article is a summary of UNCTAD Discussion Paper No. 84 (May 1994).*

[1] *"The East Asian Miracle: Economic Growth and Public Policy" (Published for the World Bank by Oxford University Press, 1993).*

services; and the military dictatorships and/or single party states of the post-war HPAEs insulated "economic technocrats" from populist pressures while allowing them to win cooperation from the business elite. However, since most of the HPAEs were pursuing dirigiste strategies, the two conditions can at most explain why the HPAEs implemented their dirigisme more effectively than did other developing countries.

In fact, as regards Latin America the second condition drops out. One-party states and dictatorships that kept populism at bay while allowing insulated technocrats to implement policies congenial to the business elite and foreign capital were also a prominent feature of post-1950s Latin America. This leaves a more equitable distribution of wealth and income in East Asia as the main discriminant. The study blows hot and cold on this, stressing the ways in which it has facilitated high rates of accumulation in the HPAEs, but excluding redistributive reforms from its policy recommendations.

Had the study probed why the "insulated technocrats" of the HPAEs implemented their dirigiste industrialization more successfully than their counterparts in Latin America, it would have found that that the sequencing of industries differed substantially between the two. Whereas the pioneering northern tier of the HPAEs promoted capital goods and intermediate processing activities before consumer durables, the "insulated technocrats" of Latin America reversed the order.

A likely explanation is that consumer demand dynamics shaped the feasible policy space in the two regions differently, the more import intensive consumer demand of Latin America creating balance of payments pressures that forced its technocrats to promote import substitution (ISI) in a number of consumer durables with "backward-linkage" ISI lagging behind. Income inequality concentrated most of the relevant demand in the top-third of households, but with similar preferences were shaping expenditures of the poorer urban households. On the other hand, the relatively equitable income distribution of the HPAEs plus a more measured preference shifting toward "modern" goods across all income classes preserved positive income elasticities of demand for traditional goods. This allowed craft-based firms to accumulate and modernize production, while providing policy space for "insulated technocrats" to promote a more developmentally efficient sequencing of large industry.

Preference analysis allows a more fruitful incorporation of history into development theorizing than imbues the study. In the study, as in the two-sector Lewis model, industrial technology enters from abroad; hence the faster the penetration through foreign trade and investment, the better for development. Bringing in indigenous industry as a third sector highlights substitution as well as complementarity interactions with the indigenous sector, making the development effects of external penetration non-linear. Excessive rates of displacement of indigenous industry can be detrimental for employment, income distribution and capital accumulation, the "optimal" point varying according to the initial size of the indigenous sector, consumer preferences, and the cultural factors shaping preferences in different countries. Thus part of Latin America's problem may be that history has placed it beyond the optimum, endowing it with a Europeanized land-grabbing elite separated by a cultural gulf from the lower orders, with past dependent effects carrying into the present. Part of East Asia's current success is that it entered this century below the optimum, and has been able, with its insular, integrated cultures to interact more selectively with the advanced capitalist world.

Differing Responses to Globalization

Today's international environment is more hostile to dirigiste strategies than when the HPAEs were erecting the substructure of the East Asian "miracle." That substructure, which includes a high degree of intra-regional economic integration, is now allowing the HPAEs to liberalize selectively.

The Latin American response, on the other hand, has been to attempt "great leaps forward" into market liberalization, replicating the pioneering leaps of the Southern Cone countries in the 1970s. The latter tripped over incompatibilities between pushing toward free trade while increasingly overvaluing the exchange rate in order to slow the inflation rate. When the dependence on capital inflows to cover the rising current account deficits reached unsustainable levels, the efforts collapsed in pandemic financial crises.

The same incompatibilities haunt the current leaps to "market friendliness" in Latin America. Low-saving, import-intensive consumers have once again been forcing the insulated technocrats to lag the nominal exchange rate as an anti-inflation weapon, and to rely on capital inflows to cover the rising current account deficits. There are lessons from the HPAEs that might prevent a disastrous denouement once more, including: a partial retreat to trade controls, help from the financial powers in dampening international capital volatility, and a more aggressive pursuit of intra-regional economic integration. But the study ignores such options and the problems they address. Perhaps the Bank could provide us with a sequel to "The East Asian Miracle" that, with more substance and less hype, reconciles "market friendliness" with these problems.

A TAX ON FOREIGN EXCHANGE TRANSACTIONS TO RESTRAIN CURRENCY SPECULATION

There has recently been a revival of interest in the idea of levying a tax on foreign exchange transactions, originally proposed by Nobel Laureate James Tobin.[1] This interest is driven by two distinct objectives. One, which tends to come to the fore as part of the aftermath of periods of currency instability such as those experienced in 1992-1993 by countries of the European Union (EU), is to restrain speculation in foreign exchange. The second is to tap the potential source of revenue for international purposes constituted by foreign exchange transactions. The value of daily turnover on the world's foreign exchange markets was estimated at $880 billion per business day in April 1992 or more than $200,000 billion on an annual basis, a figure which would enable the raising of a very large sum of money through a transactions tax at a rate as low as 0.5 to 1 per cent. However, the sum raised would be less, the more successfully the tax achieved the objective of reducing the number of speculative transactions in foreign exchange. Moreover, the yield would also be reduced if, for the purpose of keeping down the cost of non-speculative transactions, the tax were subject to major exemptions.

There is widespread agreement as to the benefits of long-term international investment, so long as it is subject to certain restrictions and conditions. But there is no such consensus concerning short-term international capital movements. Policy makers' concerns regarding the latter derive mainly from the volatility of many of the transactions through which such movements are effected. This is easily translated into volatility of the exchange rate, asset prices and interest rates, foreign exchange reserves, and the supply of domestic financing. Thus, short-term international capital movements are capable of exerting a powerful, adverse influence on resource allocation, consumption and investment. Moreover volatility of exchange rates and foreign exchange reserves tends to exert a deflationary impact on the world economy owing to the asymmetry in pressures for adjustment on countries with weak currencies as opposed to those with strong ones.

[1] *In the earlier versions of the proposal Tobin's emphasis was on the tax as a vehicle for restraining speculative capital movements. But in a note prepared for the UNDP's "Human Development Report 1994" Tobin also recommends that the proceeds of such a tax be devoted to financing international needs. Various questions related to such a tax as well as different legal regimes for international capital movements are examined in Yilmaz Akyüz and Andrew Cornford, "Regimes for international capital movements and some proposals for reform", UNCTAD Discussion Paper No. 83 (May 1994).*

Regimes Governing International Capital Movements

The unfavourable effects of certain types of international capital movements were in the minds of the framers of the only existing global monetary regime, that contained in the Articles of Agreement of the IMF. The obligations of this regime regarding exchange control refer to current and not to capital transactions, and are contained principally in Articles VIII and XIV. The first of these Articles prescribes the obligation not to impose restrictions on payments and transfers for current international transactions without the Fund's approval, while the second specifies transitional arrangements for member countries not yet willing to accept the obligations of Article VIII. Thus the IMF regime permits controls over international capital movements, and among developing countries such controls remain widespread. Even certain developing countries, the longer-term tendency of whose policies towards capital movements is in the direction of liberalization, have recently had recourse to various measures to restrain such movements owing to the problems for their economic management posed by greatly expanded external financial inflows since 1991.

Amongst OECD countries the trend of policy towards capital movements since the 1960s has been in the direction of liberalization. Unlike developing countries, they have assumed obligations under international regimes in the form of the OECD Code of Liberalisation of Capital Movements and, for member countries of the EU, the pertinent EEC Directives and the Maastricht Treaty. The approach of both the OECD Code and the EEC Directives is to place different international capital transactions in lists to which distinct liberalization obligations apply. Through time the number of transactions subject to more stringent obligations has been progressively expanded to include those in short-term financial instruments as well as those through which longer-term international investment is typically carried out. The Maastricht Treaty prescribes the abolition of restrictions on capital movements not only between Member States of the EU but also between Member States and third countries. During the second stage of economic and monetary union there remain provisos allowing protective measures in response to disruptive international capital movements, but during the third stage, for Member States moving to a single currency, such provisos will apply only to movements involving third countries.

Different Approaches to Restraint

In view of the rejection by OECD countries of direct controls as a solution to the problems caused by speculative capital movements, attention has shifted to various other ways of restraining them. One approach (espoused, for example, by the IMF and the OECD) would rely on convergence of macroeconomic policies and economic performance, principally through the setting of targets for price stability and fiscal deficits. However, the recent experience of EU countries leads to skepticism as to the likelihood of success for such reliance, and broader agreement along these lines also involving non-EU countries would be difficult to achieve.

The UNCTAD secretariat has advocated a two-pronged approach to the problem: on the one hand, macroeconomic policies designed to achieve better management of global interdependence, which would include a commitment by governments to defend a publicly announced pattern of exchange rates compatible with high levels of activity and employment; and, on the other hand, reinforcement of the effects of such policies by microeconomic measures such as the taxation of foreign exchange transactions.[2] Part of the interest attaching to the latter measures, however, is that they might be expected to restrain foreign exchange speculation even if they were not implemented as part of the overall UNCTAD policy package. Indeed, many of the advocates of a tax on foreign exchange transactions would not necessarily be prepared to endorse the other components of a policy package similar to that put forward by UNCTAD.

A Transactions Tax in Practice

Implementation of a transactions tax to restrain foreign exchange speculation would require the solution of several problems regarding coverage and design. Perhaps most importantly, the tax would require agreement to impose it among all countries with significant financial centres. Otherwise foreign exchange business would be transferred to those where the tax did not apply. Such an agreement would have to cover not only OECD countries but offshore financial centres too. Moreover, as new financial centres emerge in developing countries, these too would have to be brought on board.

A second problem concerns the question of the transactions to which the tax would apply. These should include not only spot and forward transactions and foreign-exchange swaps (which combine the two) but also other contracts involving the obligation or right to exchange foreign currencies at a future date such as futures and options. Positions in foreign exchange can, however, also be taken via other financial instruments, and in the event that a tax on foreign exchange transactions were imposed, new instruments would be likely to be devised, or existing ones to be adjusted, with the objective of evading the tax or reducing the amounts paid. It is unlikely that the tax could be designed in such a way that it contained safeguards against all such eventualities. An alternative and more reasonable approach would be to accept the need for alteration in the tax's design if new or adjusted instruments seriously threatened its effectiveness. Once the coverage of foreign exchange transactions were decided, there would remain several problems related to the modalities of the tax, such as the valuation of different transactions for tax purposes and the timing of tax payments.

Another fundamental question is which economic agents should be subject to the tax. It could be argued that a transactions tax applying to banks as well as to non-financial actors would not only "throw sand in the wheels of speculation" but also increase the costs to banks of operations necessary to the provision of a service required for the non-financial, non-speculative business of international trade and investment. Typically banks undertake several other foreign-exchange transactions among themselves for every one with a non-financial customer as part of the process of laying off the risks of an open position and of price discovery. This is not a decisive argument against subjecting banks to the transactions tax. There is no a priori reason why any economic activity should be exempt from taxation in all circumstances, and postwar tariff-cutting exercises have greatly lowered taxes on international trade. Moreover, while non-banks have been a major source of speculative pressures in currency markets, banks also often assume open positions in these markets and their foreign-exchange trading can be an important source of profits (and of losses). Nevertheless, there are other ways of reducing foreign-exchange speculation by banks less open to the objection that they raise the costs of services required by non-financial activities. These deserve consideration as part of any internationally agreed approach to restraining foreign-exchange speculation.

Regulation of Banks' Balance Sheets

One measure of this kind would be to require banks to make non-interest-bearing deposits corresponding to increases in open positions in

[2] *"Trade and Development Report, 1990" (United Nations Publication, Sales No.: E.90.II.D.6), pp. IX to XII and Part Two, chap. 1, section D.*

foreign exchange. Such a measure was deployed, for example, by the Spanish government in 1992. Since the requirement would apply to balance-sheet positions, it could serve as a tax on speculation without being subject to the criticism that through its incidence on individual interbank transactions it raises banks' costs of providing a foreign-exchange service for international trade and long-term international investment.

Another measure would be to impose capital charges on banks' open positions in foreign exchange. As in the case of the transactions tax, international agreement would be necessary on the adoption of the measure by all countries with significant banking centres, so as to avoid the danger that foreign-exchange business would move to countries where the regulations did not apply. This approach has the advantage of relying on regulations analogous to those already proposed as part of the current initiative of the Basle Committee on Banking Supervision concerning standards for the supervision of banks' market risks including those due to their positions in foreign exchange.[1] Although this initiative is more narrowly directed at objectives regarding the prudential supervision of banks, it would none the less cover the very transactions through which banks can engage in currency speculation.

However, the capital requirements proposed by the Basle Committee would still leave banks some leeway for speculation, for example, because they would apply only at the close of each business day. As a result more stringent capital requirements have been proposed. For instance, such requirements might apply not just at the end of business days but continuously throughout them. In view of the difficulty of controlling exposure precisely from moment to moment this would mean that in practice banks would need to maintain levels of capital against open foreign-exchange positions significantly in excess of prescribed minima. But the consultations on the Basle Committee's initiative would probably be greatly complicated by attempts to extend it so as to become a more stringent impediment to currency speculation. Thus it may be preferable to wait until there has been experience of the effects of the Basle Committee's initiative in practice. Then, if additional restraint of foreign-exchange speculation still seemed necessary, continuously applied capital requirements might be a means of achieving it.

[1] *These standards are set out in the Committee's paper of April 1993, "The supervisory treatment of market risks. Consultative proposal by the Basle Committee on Banking Supervision".*

(continued from page 5)

tionship between the development of a domestic entrepreneurial capacity, in particular for the creation of small and medium-sized enterprises (SMEs), and the development process. Topics singled out for analysis include the role of the State with reference to the regulatory framework and incentives structures, human resources development, institutional support, the informal sector and its integration into the formal economy; interactions between the development of SMEs and of capital markets and banking systems; and export development and the role of SMEs. The Group is expected to provide a forum for the exchange of experiences among member States in this field and thus to contribute to the formulation of appropriate policies.

The Board also considered the implications for the intergovernmental process of the decisions of the Secretary-General of the United Nations concerning the restructuring of the economic and social sectors. In this context, it agreed that the Commission on Transnational Corporations and the Commission on Science and Technology for Development should be integrated into the intergovernmental machinery of UNCTAD, subject to concurrence by the General Assembly.

As for the review of the technical cooperation programme, the Board reaffirmed its strong support for technical cooperation as one of the main functions of UNCTAD and welcomed the overall thrust of the consultants' report prepared for this purpose, with its emphasis on the need to strengthen technical cooperation activities. The Board was unable to conclude the review in the time available, however, and decided to meet again. Meanwhile the secretariat was invited to examine the implementation of those of the report's recommendations aimed at increasing transparency and overall administrative efficiency.

The secretariat's report was considered by the Board when it resumed its review in September. The Board concluded that while UNCTAD should remain a relatively small technical cooperation agency, it could nevertheless play a vital and unique role by filling selected and strategic niches in the development and management of the international trade and financial system. It identified as priority objectives: strengthening the negotiating capacity of developing countries and countries in transition; helping countries identify new trade opportunities; improving systems and procedures as regards international trade, finance and transport; and human resource development.

REVIEWS

REGIMES FOR INTERNATIONAL CAPITAL MOVEMENTS AND SOME PROPOSALS FOR REFORM

Yilmaz Akyüz, Andrew Cornford
UNCTAD Discussion Paper – No. 83, May 1994

The intensity of debate concerning international capital movements tends to vary with the most recent experience of the movements themselves, typically being greatest in the aftermath of periods of monetary turbulence (such as that of EMS countries in 1992 and 1993). The widespread agreement as to the potential benefits of long-term international investment (subject to appropriate conditions and restrictions) has not been accompanied by a similar consensus concerning short-term capital movements, even though these have now been largely liberalized in OECD countries. No such regimes apply to the developing world but there is a discussion of national policies in certain countries, especially those which have recently received large capital inflows.

After discussing different techniques and instruments for controlling international capital movements and regimes currently in place for this purpose, this *Discussion Paper* reviews various policy proposals for curbing speculative flows. In view of the large literature on the way in which macroeconomic policies could contribute to this objective, greater attention is reserved for the tax on foreign-exchange transactions proposed by James Tobin, and for measures affecting banks' balance-sheet management designed to increase the costs of engaging in foreign-exchange speculation.

THE IMPACT OF TRADE LIBERALIZATION ON EXPORT AND GDP GROWTH IN LEAST DEVELOPED COUNTRIES

S.M. Shafaeddin
UNCTAD Discussion Paper – No. 85, July 1994

Least developed countries (LDCs), particularly in Africa, have been increasingly marginalized in international trade, mainly due to their high dependence on the production and exports of primary commodities. Trade liberalization has been recommended to these countries with the aim of expanding GDP and exports and diversifying the production and export structure into manufactures. This *Discussion Paper*, however, finds no clear and systematic association since the early 1980s between trade liberalization and devaluation, on the one hand, and the growth and diversification of output and exports of LDCs on the other. In fact, trade liberalization has been accompanied by the expansion of supply capacity. The *Paper* attributes economic success or failure rather to such factors as the volume of investment and the availability of imports. The design of trade policy reforms is also singled out as an important determinant of economic performance. The author finally outlines an alternative approach to trade policy reform which differentiates countries by their level of development, industrial base and individual characteristics.

BANK CREDIT, SMALL FIRMS AND THE DESIGN OF A FINANCIAL SYSTEM FOR EASTERN EUROPE

Raju J. Singh
UNCTAD Discussion Paper – No. 86, July 1994

This *Discussion Paper* contributes to the debate on what type of financial institutions should be promoted in Eastern Europe. While most of the existing debate has focused on the monitoring problem of large enterprises, this *Paper* stresses the screening needs of small and medium firms. Developing a credit rationing model with collateral and heterogeneous lenders and borrowers, it demonstrates that lenders endowed with an information gathering technology such as banks play a key role in the provision of credit to small and medium enterprises. The priority for Eastern European countries should be the creation of a sound and well-performing banking system. The *Paper* first briefly reviews the empirical evidence on the external financing of small and medium enterprises and the related theoretical literature, drawing on the imperfect information approach. After presenting and solving the model, the author draws some policy conclusions.

ECONOMIC DEVELOPMENT AND ENDOGENOUS TERMS-OF-TRADE DETERMINATION: REVIEW AND REINTERPRETATION OF THE PREBISCH-SINGER THESIS

Thomas Ziesemer
UNCTAD Discussion Paper – No. 87, July 1994

This *Discussion Paper* extensively reviews the theoretical literature on the Prebisch-Singer Thesis and economic development. The aim is to identify models which exhibit a positive relation between indicators of economic development such as per-capita income, real wage or employment and terms of trade development. In many models the economy is better off if the terms of trade are falling and income and price elasticities do not appear in the growth rate solutions. As this is at variance with the Prebisch-Singer Thesis, two simple models are constructed: in a

vent-for-surplus model, income and price elasticities appear in the solution for employment, but the terms of trade are driven down by the factors that increase employment; in a model with exogenous employment and imported capital goods, higher income elasticities of export demand increase the long-run growth rates of real wages, per capita income, the capital-labour ratio and the terms of trade, thus representing the ideas of Prebisch, Singer and Myrdal on the relation between exports and growth.

FINANCE AND THE REAL ECONOMY
Editors: Yilmaz Akyüz, Gunther Held
ECLAC/UNCTAD/UNU/WIDER, Santiago de Chile, 1993, 290 pp.

This book is the product of a joint programme on "Financing for Development" between the Economic Commission for Latin America and the Caribbean (ECLAC) and UNCTAD designed to study national experiences in financial-policy reforms and mobilization of domestic resources with a view to drawing policy conclusions for developing countries. The volume contains six papers on financial-policy issues and country experiences presented at a joint ECLAC/UNU-WIDER/UNCTAD seminar held at ECLAC headquarters in Santiago, Chile, in October 1992. The papers are listed below.

- *Financial Liberalization: The Key Issues*
  Yilmaz Akyüz
- *East Asian Financial Market: Why so much (and fairly effective) Government Intervention?*
  Alice H. Amsden
- *Savings and Financial Policy Issues in Sub-Saharan Africa*
  Machiko Nissanke
- *The Indonesian Experience with Financial-Sector Reform*
  Donald P. Hanna
- *Pension System Reforms and Savings in Latin American and Caribbean Countries with Special Reference to Chile*
  Andras W. Uthoff
- *Bank Regulation, Liberalization and Financial Instability in Latin American and Caribbean Countries*
  Gunther Held

LIBERALIZING INTERNATIONAL TRANSACTIONS IN SERVICES
United Nations publication
Sales No. E.94.II.A.11, US$ 45

This *Handbook*, issued jointly by UNCTAD and the World Bank, is designed to assist developing countries in elaborating and assessing policies to improve the efficiency of their services industries through the liberalization of international transactions, encompassing both foreign direct investment and trade. It is the first attempt to provide a comprehensive analysis of policy instruments that can be used to influence such transactions, which are playing an increasingly important role in the world economy. In 1993 world trade in services amounted to some US$ 1,000 billion, or 22 per cent of total trade in goods and services, compared to 17 per cent in 1980. Moreover, around 60 per cent of annual world foreign direct investment flows are related to service industries.

TRANSNATIONAL CORPORATIONS
United Nations publication, Volume III, No. 1, 1994, US$ 15

Transnational Corporations, a refereed journal published three times a year by the UNCTAD Transnational Corporations and Investment Division, contains articles on the economic, legal, social and cultural impacts of transnational corporations in an increasingly global economy and the policy implications that arise therefrom. This issue coincides with the twentieth anniversary of the Commission on Transnational Corporations. The articles presented, listed below, highlight the changes in the international economic system, reassess the benefits associated with the activities of foreign affiliates, reconsider the role of governments and analyze growing regional integration schemes.

- *Transnational Corporations and the Changing International Economic System*
  Charles-Albert Michalet
- *Reevaluating the Benefits of Foreign Direct Investment*
  John Dunning
- *The Growing Interdependence between Transnational Corporations and Governments*
  John M. Stopford
- *The North American Free Trade Agreement and Foreign Direct Investment*
  Michael Gestrin and Alan M. Rugman
- *East-Asian Investment and Trade: Prospects for Growing Regionalization in the 1990s*
  Carlos A. Primo Braga and Geoffrey Bannister
- *Research on Transnational Corporations: Shedding Old Paradigms. A Review of the United Nations Library on Transnational Corporations*
  Raymond Vernon

UNCTAD "Discussion Papers" may be obtained through the Editorial Assistant, Editorial Board, UNCTAD, Palais des Nations, 1211 Geneva 10, Switzerland. Tel. (4122) 907 12 34, ext. 75733.

NOTES

TNCS COMMISSION MOVES TO UNCTAD

On 1 May the Commission on Transnational Corporations (TNCs) recommended to the General Assembly, through the Economic and Social Council (ECOSOC), that it should become a subsidiary body of the Trade and Development Board and be renamed the UNCTAD Commission on International Investment and Transnational Corporations. ECOSOC has since supported the recommendation.

The proposed move reflects the increased emphasis the Commission has been placing recently on the contribution of TNCs to economic growth and development, on strengthening cooperation between host developing countries and TNCs and on facilitating flows of foreign direct investment. The Commission has also been exploring linkages between capital flows, technology dissemination and acquisition, and trade in goods and services, thus providing greater scope for complementarity and integration with other on-going UNCTAD activities. It should be recalled that UNCTAD has been designated by the General Assembly as the most appropriate focal point within the United Nations for the integrated treatment of issues in key areas such as trade, finance, investment, services and technology.

SEMINAR ON SERVICES IN AFRICA

With the financial support of the Carnegie Corporation of New York, the International Development Research Centre (IDRC) of Canada, and the Government of France, UNCTAD organized a seminar on services in Africa in Nairobi, Kenya from 2-5 May. Ten African countries currently participating in the Coordinated Programme of Assistance on Services (CAPAS) participated: Benin, Burundi, Ghana, Guinea, Kenya, Nigeria, Senegal, Tanzania, Uganda and Zimbabwe. Burkina Faso, Madagascar, Namibia and Zambia, which are considering joining the CAPAS programme, also took part.

CAPAS was launched in 1992 as a result of a meeting organized by UNCTAD and Columbia University's Eisenhower Centre (New York) in response to the need expressed by African countries to develop further their analytical capabilities and decision-making capacity in the area of services, partly as a result of the inclusion of services in the Uruguay Round and their coverage, for the first time, in the Lome IV Convention.

The Nairobi meeting assessed the results of the first phase during which national studies on the services sector of each country were carried out. The dissemination of the findings of the national studies should increase awareness of their policy implications at various levels of government and in the private sector. It is also anticipated that the assessment of the mechanisms put in place during the first phase will yield lessons for an improved interactive process to be used during the second phase of CAPAS.

UNCTAD, CIS COOPERATION AGREEMENT

On 5 May the Officer-in-Charge of UNCTAD, Mr. Carlos Fortin, and the Executive Secretary of the Commonwealth of Independent States (CIS), Mr. Ivan Korotchenya signed a cooperation agreement. The agreement foresees the exchange of information in the economic field, as well as technical assistance by UNCTAD.

The CIS was founded in December 1991. In September 1993, the Member States created an economic union with the aim of pursuing the free movement of goods, services, capital and labour, as well as coordinated monetary, credit, price, customs and exchange policies.

SEMINAR ON TELECOMMUNICATIONS SUPPORT FOR TRADE IN SERVICES

Trade experts, including senior officials who had participated in the Uruguay Round, and telecommunications experts from the public and private sectors met in Bandos, Republic of Maldives, from 14-17 May, to exchange experiences in a regional seminar on Telecommunications Support for Trade in Services. The seminar was organized by UNCTAD in collaboration with the Asia-Pacific Telecommunity (APT), with the support of the United Nations Development Programme (UNDP).

The seminar recognized the importance of enhancing the scope of telecommunications services so as to support trade in services and the role that the business sector could play in this context. Japan proposed the establishment of an Asian Information Infrastructure to connect APT countries with an "Information Super-Highway". Recommendations were also made for increased APT/UNCTAD cooperation in addressing issues related to the expansion of trade in services of Asia-Pacific countries through telecommunications, including the identification of barriers to such trade through the strengthening of the UNCTAD database on measures affecting trade in services (MAST).

WORKSHOP ON COMMODITY EXCHANGES

As part of its work on commodity marketing and risk management, a regional workshop on commodity exchanges was organized in Jakarta,

Indonesia, from 17-19 May by UNCTAD and the Department of Trade of the Republic of Indonesia through the Indonesian Commodity Exchange Board (ICEB), with the financial support of UNDP.

The 45 workshop participants included the principal officers of agricultural commodity futures exchanges from India, Indonesia, Japan, Malaysia, Philippines and Singapore, and policy makers and risk management specialists from these countries as well as from China, Thailand, the United Kingdom and the United States. The discussions focused on improving regional cooperation with regard to the creation and operation of commodity exchanges and commodity futures and options contracts.

ASSOCIATION OF PORT JURISTS CREATED WITH UNCTAD SUPPORT

Port legal experts from 45 countries have decided to create an international association with the objective of strengthening cooperation among themselves, promoting and harmonizing port legislation, and contributing to the improvement of the legal regime for ports. The decision was taken at a meeting convened on 31 May by UNCTAD, in cooperation with the Port of Dunkerque, France. The meeting was attended by eighty participants representing some 50 ports.

The association, named LEGIPORT, hopes to initiate steps for updating conventions dating from 1923 to 1952, and also to make recommendations on other legal issues such as ship arrests, and, or abandon in ports, and on the limitation of liabilities of port authorities.

The LEGIPORT secretariat has been established for the next two years in Dunkerque (Terre Plein Guillain, B.P. 6534, 59386 France, Fax: 28 29 74 74).

CONFERENCE ON DEVELOPMENT, ENVIRONMENT AND MINING

Three-hundred participants from 57 countries representing governments, industry, academia and non-governmental organizations attended a Conference on Development, Environment and Mining, which was held in Washington D.C. from 1-3 June. The Conference was organized jointly by UNCTAD, the United Nations Environment Programme (UNEP), the World Bank and the International Council on Metals and the Environment (ICME). About half of the participants came from developing countries.

The Conference discussed issues relating to the contribution of the mining and metallurgical sectors to the development and environment objectives of developing countries. Recommendations were addressed to governments and mining companies. The Conference also called on intergovernmental organizations, including the United Nations and the World Bank, to support the strengthening of institutions and human resources for the generation, collection and open distribution of basic geological data.

WORKSHOP FOR ASIA-PACIFIC ON TRADING OPPORTUNITIES

A workshop on the Expansion of Trading Opportunities to the Year 2000 for Asia-Pacific Countries was organized in Jakarta, Indonesia, from 6-9 June by UNCTAD in cooperation with the National Agency for Export Development (NAFED) of the Government of Indonesia.

The workshop was intended to help countries in designing strategies for taking full advantage of new trading opportunities in the post-Uruguay Round environment. The focus was on what can be learned from the successful experiences of various countries in regard to effective policies, incentive systems and institutional support arrangements for export expansion. These lessons were considered against the background of emerging global trends in investments, export capabilities and trading opportunities arising from the Uruguay Round.

INTERNATIONAL COOPERATION FOR MARITIME MANAGEMENT TRAINING

A Steering Committee met on 7-8 July to advise on the further development of TRAINMAR, UNCTAD's technical cooperation programme designed to train policy-makers and senior managers in the field of shipping, ports and multimodal transport, and to help developing countries establish their own training programmes. The Steering Committee, which brought together representatives of TRAINMAR centres, interested international organizations, donors, UNDP and UNCTAD as well as independent advisers, recommended that governments and all concerned give special attention to: improving the environment for training, since the full potential of training depends on industry support and readiness to apply new skills; adopting human resource development policies, so that training may focus more on long-term needs; and to institutional change, which is transforming the maritime sector, and especially ports. The Committee called upon UNCTAD and donors to reinforce support to TRAINMAR in executing this plan.

TRAINMAR activities have been growing rapidly: there are 51 TRAINMAR bodies in 46 countries in Africa, Asia, Europe and Latin America. Some 10,000 managers receive training each year through the worldwide network.

PUBLICATIONS

- Final Report of the Ad Hoc Working Group on Investment and Financial Flows-Non-Debt Creating Finance for Development; New Mechanisms for Increasing Investment and Financial Flows (TD/B/WG.1/14)
- Standing Committee on Developing Services Sectors: Fostering Competitive Services Sectors in Developing Countries: Progress Report by the Secretariat on the Implementation of the Work Programme of the Standing Committee (TD/B/CN.4/25/Add.1); Issues of Agricultural Insurance in Developing Countries (TD/B/CN.4/30); Insurance (TD/B/CN.4/31); Shipping (TD/B/CN.4/34); Review of Activities of the Secretariat Pertaining to the Work Programme – Shipping (TD/B/CN.4/36)
- Report of the Trade and Development Board on its fifth (pre-sessional) executive session (TD/B/EX(5)/2)
- Generalized System of Preferences; Clarification to the Australian System of Tariff Preferences: Rules of Origin (TD/B/GSP/AUSTRALIA/18); Scheme of Japan for fiscal year 1994 (TD/B/GSP/JAPAN/20)
- Technology and Raw Materials Demand (UNCTAD/ITD/TEC/14)
- International Sugar Agreement, 1992 (TD/SUGAR/12/Rev.1)
- Report of the Trade and Development Board on the second part of its fortieth session (TD/B/40(2)/24 (Vol.I)) and Summary of proceedings (TD/B/40(2)/24 (Vol.II)); Report of the Trade and Development Board on the Resumed Second Part of its Fortieth Session – Report to the United Nations General Assembly (TD/B/40(2)/26)
- UNCTAD's Assistance to the Palestinian People: Developments in the Economy of the Occupied Palestinian Territory, with Special Reference to External Trade (TD/B/41(1)/3)
- Sustainable Development: Trade and Environment – the Impact of Environment-Related Policies on Export Competitiveness and Market Access (TD/B/41(1)/4
- Ad Hoc Working Group on Expansion of Trading Opportunities for Developing Countries: Consideration of Issues Arising from the Work Programme of the Ad Hoc Working Group – a Preliminary Analysis of the Results of the Uruguay Round and Their Effects on the Trading Prospects of Developing Countries (TD/B/WG.4/13); Country presentation by the United Kingdom (TD/B/WG.4/Misc.32)
- Special Committee on Preferences: Rules of Origin (TD/B/C.5/Origin/63)
- The Internalization of Environmental Costs and Resource Values: A Conceptual Study (UNCTAD/COM/27)
- The Environmental Effects of Agricultural Production and Related Measures: Illustrative Cases from Developing Countries (UNCTAD/COM/42)
- Standing Committee on Poverty Alleviation: Survey of Replies to the Questionnaire on Poverty Alleviation (TD/B/CN.2/9); Effects on Poverty Alleviation of Structural Adjustment Programmes, Job Creation Policies and Means for the Participation of Small Scale and Micro-Enterprises in International Trade (TD/B/CN.2/10); the Role of Small and Micro-Enterprises in Poverty Alleviation through Participation in International Trade (UNCTAD/PA/6); the Effects of Poverty Alleviation of Structural Adjustment Programmes (UNCTAD/PA/8)
- Standing Committee on Developing Services Sectors: Fostering Competitive Services Sectors: Insurance (TD/B/CN.4/32)
- United Nations International Symposium on Trade Efficiency (TD/SYMP.TE/PC/2)
- Report of the Ad Hoc Working Group on Trade Efficiency on its third session (TD/B/WG.2/13)
- Review of International Support to ECDC: Experiences of Developed and Developing Countries their Problems and Prospects (TD/B/CN.3/GE.1/Misc.11); Experiences of Developed and Developing Countries their Problems and Prospects by the Commonwealth Secretariat (TD/B/CN.3/GE.1/Misc.12); the European Commission (TD/B/CN.3/GE.1/Misc.13); Examen del Apoyo Internacional a la CEPD: Experiencias de los Paises desarrollados y los paises en desarrollo, sus problemas y perspectivas by Sistema de la Integracion Centroamericana (TD/B/CN.3/GE.1/Misc.14); Review of Major Developments in the Area of Economic Cooperation among Developing Countries, including Regular Consultations and Technical Support, Assistance and Skill Development – Note by Kenya (TD/B/CN.3/Misc.2)
- Statistical Survey on Insurance and Reinsurance Operations in Developing Countries, 1983-1990 (UNCTAD/SDD/INS/5)
- Review of Iron Ore Statistics 1986-1993 (TD/B/CN.1/IRON ORE/12); Review of the Current Situation and Outlook for Iron Ore, 1994 (TD/B/CN.1/IRON ORE/13); Annotated Bibliography on Iron Ore-1994 (TD/B/CN.1/IRON ORE/14)
- Improving Market Opportunities for Commodities in the Medium Term, with Emphasis on Achieving Diversification (TD/B/CN.1/24)
- National Institution Building to Facilitate Access to Risk Management Markets for Small Producers and Traders particularly from Developing Countries and Countries in Transition: Issues Involved and Possible Ways to Overcome Them – Risk Distribution after Liberalization of Commodity Marketing and Problems of Access to Risk Management Markets for Developing Country Entities, Illustrated by the Example of Coffee in Africa (TD/B/CN.1/GE.1/2); Counterpart and Sovereign Risk Obstacles to Improved Access to Risk Management Markets: Issues involved, Problems and Possible Solutions (TD/B/CN.1/GE.1/3)

UNCTAD documents are available for reference at all United Nations Information Centres and at depository libraries for United Nations publications. The yearly subscription for all mimeographed UNCTAD documents is US$ 300 including postage. Requests for such subscriptions as well as orders for individual sales publications should be addressed to: United Nations Sales Section, Palais des Nations, 1211 Geneva 10, Switzerland.

FORTHCOMING UNCTAD MEETINGS

- ***October***

3-14
United Nations Conference on Natural Rubber, 1994, second part

17-21
United Nations International Symposium on Trade Efficiency, Columbus, Ohio, USA

24-28
Intergovernmental Group of Experts on Restrictive Business Practices, thirteenth session

24-26
Intergovernmental Group of Experts on Iron Ore, third session

26-28
Ad Hoc Group of Experts on Risk Management in Commodities Trade

UNITED NATIONS CONFERENCE ON TRADE AND DEVELOPMENT

ISSN 0259-3181

UNCTAD BULLETIN

JULY – AUGUST / SEPTEMBER – OCTOBER 1994 NUMBERS 27/28

IN THIS ISSUE

- Carlos Fortin addresses high level policy dialogue at ECOSOC
- The role of Government in industrialization in East Asia
- The impact of trade liberalization on export and GDP growth in least developed countries
- UNCTAD's activities on environment and sustainable development
- Environmentally sound technologies, standards and trade
- UNCTAD's Thirtieth Anniversary
- United Nations International Symposium on Trade Efficiency
- Reviews: Handbook of International Trade and Development Statistics; Statistical Survey on Insurance and Reinsurance in Developing Countries; UNCTAD Statistical Pocket Book; UNCTAD Commodity Yearbook 1994; The payment arrangements in the trade of CEECs and developing countries between 1986 and 1994; The investment-profits nexus in East Asian industrialization; Saving and investment in Latin America; World Investment Directory; UNCTAD Review 1994; Proceedings of G.24 conference
- Notes: The UNCTAD/FUINCA Cooperation Agreement; UNCTAD formulates recommendations to the World Summit for Social Development; HRD programme on commercial diplomacy in Asia-Pacific; UNCTAD to have database on services trade measures; Seminars on Port Marketing and Container Terminal Management; Seminar on Trade Prospects for Developing Countries; Natural Rubber Conference to reconvene in 1995

UNITED NATIONS CONFERENCE
ON TRADE AND DEVELOPMENT

EDITORIAL

The controversy over the respective roles of government and of the market is as old as the history of the modern economic theory initially formulated by Adam Smith. Objecting to the role of the visible hand of government in economic life, he had argued in favour of the invisible hand of the market. Moreover, he envisaged little divergence between the interests of individuals and those of society as a whole.

Generally-speaking, the rationale for government intervention rests on two main arguments: market inadequacy and market failure. There is little controversy over the former: the market is inadequate for the purpose of bringing about social equity. The issue of equitable distribution of the fruits of production among nations and various factors of production within countries remains unresolved by the market, even if world resources were allocated efficiently. However, it is on the question of market failure where the main source of controversy lies. The proponents of government intervention argue that markets fail to bring about efficient allocation of resources mainly because of the existence of imperfections in the capital and labour markets and in markets for goods and services. Markets also fail to allocate resources according to social objectives where social interests do not necessarily coincide with those of individuals. Such is the case with regard to the environment, where the social cost of environmental damage is not calculated in the private cost of production and/or consumption of goods.

The need for rapid socioeconomic change was one of the main rationales for government intervention in developing countries. The market mechanism was failing to bring about rapid industrialization and development. Governments, therefore, intervened in almost all developing countries seeking industrialization. Intervention took place through the process of import substitution. A few countries in East Asia succeeded in their endeavour. The majority, however, failed. The pro-marketeers attributed the cause of success in East Asia to the invisible hand of the market. Conversely, failure elsewhere was attributed to government interference. The proponents of the invisible hand argued that even if the market failed, governments should not intervene in the economy because government failure had greater adverse consequences than market failure.

The truth of the matter is that regarding the success of East Asia, there was a misinterpretation of the relative role of the State and that of the market. Such misinterpretation has had significant implications for policy-making and international policy advice. Experience has, in fact, demonstrated that the success of the East-Asian countries was due, *inter alia*, to an astute appreciation of the relative role of the market, firms, and institutions, as well as of their limitations. Corrective, compensatory and complementary policy measures taken by these Governments in economic life were the result of maintaining a careful balance. The need for dynamism in policy-making for corrective action had also been emphasized by these Governments. Raul Prebisch, the founder of the theory of import substitution, himself was the first economist to indicate, in the late 1950s, the need for dynamism and pragmatism in trade and industrialization policy. Those who have succeeded, whether or not they were influenced by him, have taken such an approach.

Neither government failure nor market failure obviates the role and the need for either governments or markets. Where markets fail to correct themselves rapidly, there is a need for government intervention to correct or to complement the market. To reduce the risk of government failure, however, there is a need for the development of the capacity of the state machinery to formulate and implement sound policies. This capacity is at the heart of the success of the East Asian countries. International policy advice has failed to take into account the factors outlined above. The lack of realism, dynamism and flexibility in the formulation of policy advice is evident in many cases, and particularly in the case of low-income countries. The result has been failure to recognize the relative role of government, firms and markets in relation to the level of development or with regard to important socioeconomic and historical factors, in addition to structural and other specific conditions of each individual country. The need for an efficient mechanism for interaction between the State and firms has likewise been under-estimated.

The question is not whether a government should or should not intervene in an economy but rather how to make the right policy decisions, use the necessary corrective measures and implement them in a timely and efficient manner. The conclusions of the Trade and Development Board at its recent session, on its discussion of the East Asian experience, amply reflect these concerns.

ADDRESSING ECOSOC'S HIGH LEVEL POLICY DIALOGUE, CARLOS FORTIN, OFFICER-IN-CHARGE OF UNCTAD, REVIEWED IMPORTANT DEVELOPMENTS IN THE WORLD ECONOMY

This policy dialogue which took place on 27 June 1994 brings together on an annual basis heads of multilateral financial and trade institutions for an exchange with the membership of the Economic and Social Council.

* * *

In reviewing the state of the world economy, Carlos Fortin, Officer-in-Charge of UNCTAD, stated that after a poor performance in 1993, there were signs of an accelerated pace of economic activity in the industrial world in 1994. The recovery, however, was still hesitant and fragile, not least because of uncertainties with regard to exchange rate movements. He noted that 1993 had been the fourth consecutive year of relatively slow growth. Prevailing high interest rates in a number of Western European countries and continuing debt deflation and currency appreciation in Japan had largely offset the moderate economic recovery seen in North America. By contrast, growth in most developing regions had continued to accelerate in 1993 and was expected to maintain its pace through the current year. For the economies in transition, there were some definite signs of a turnaround although most continued to be plagued by high inflation and declining output. Prospects for a strong global performance depended critically on whether the developed world would take measures to remedy the persistent weakness of demand and if so how far it would go.

The industrialized countries

For the industrialized countries, the need was for resumption of recovery and a return to full employment. Demand would have to expand at a pace adequate to absorb the growth of output implied by higher productivity and reduced unemployment. Further structural adjustment and greater flexibility in labour markets were essential. Recent events in international capital and foreign exchange markets had called into question even the hesitant recovery that seemed to be in the offing.

With regard to both exchange rates and interest rates, globalized capital and exchange markets were producing results that impinged on the continuation and reinforcement of growth. In this context, there had been a reopening of the international debate on policies that could help curb speculative capital movements by making them more expensive for speculators. In particular, interest had been revived in a proposal made some 15 years ago by Nobel Laureate James Tobin to institute an internationally uniform transaction tax on foreign exchange transactions.

Developing countries

While world economic growth was presently concentrated in developing countries, there were wide differences among countries and regions, in particular, with respect to Asia and Latin America, on the one hand, and Africa, on the other. In the newly industrializing economies of Asia, the ASEAN-4 growth was so high that labour shortages and bottlenecks in infrastructure persisted. In China industrial growth was 20 per cent. Such high growth rates had fuelled inflationary pressures. In Latin America, expansion of output was expected to continue, with relatively stable inflation rates in most countries; growth would probably stand at 2.5 per cent, somewhat lower than in the previous year. He noted that the "Prospects for growth and stability in the region, however, may be affected by the volatility of international capital movements".

By contrast, in Africa, per capita income had continued to fall owing, *inter alia*, to natural disasters, political unrest, civil conflicts, the weakness of agricultural commodity prices and intractable debt problems. To secure the development of Africa and other low income countries, Mr. Fortin highlighted the need for international cooperation to remedy the debt problem and a mechanism whereby countries adversely affected by the results of the Uruguay Round could be compensated.

Concerning debt, bilateral creditors had themselves increasingly recognized the urgency for its further reduction. The Trinidad Terms needed to be adopted by all the Paris Club creditors as a benchmark (which would result in a two-thirds reduction), with further reductions of up to 100 per cent as necessary. Action was also needed in connection with the multilateral debt of poorer countries, a subject so far treated as taboo.

The signing at Marrakesh of the Final Act of the Uruguay Round constituted a historic milestone in international trade relations. The degree of liberalization to be expected as a result of the conclusion of the Uruguay Round could only be assessed once the market-access concessions and other commitments of a quantitative nature had been analyzed and their impact on trade flows estimated. Some developing countries

could face a substantial contraction in policy options and instruments open to them at a time when they were adopting export-orientated adjustment policies. In particular, some of the poorest, including the least developed countries, could face a certain worsening in their terms of access to markets, through erosion of preferential margins, higher costs of imported food and technology, and more onerous multilateral obligations, without rapidly being able to take advantage of the expanded opportunities. The international community should ascertain that no country was worse off as a result of the Uruguay Round agreements. More specifically, concrete programmes should be introduced to assist individual countries to neutralize short-run adverse effects and derive sustained benefits from the post-Uruguay Round trading system.

Central and Eastern Europe

With some variation, the prolonged contraction of production in Central and Eastern Europe continued in 1993. Output declined by 10 per cent, on top of the 16 per cent drop in 1992. There was considerable variation, however, among countries. While few showed clear signs of an upturn, output continued to decline in others. In 1993, output in the CIS area declined by 13 per cent and in the Baltic States by 15 per cent. In Russia the decline was 12 per cent but in most other CIS members it was much greater. Their conditions and prospects for recovery in the near future remain uncertain.

An Agenda for Development

The draft Agenda for Development proposed by the Secretary-General of the United Nations, offers the broader context of longer term objectives and needs in which to consider development issues. One of the most distinctive contributions that UNCTAD could make to the Agenda from a thematic point of view would be the integrated treatment of development and interrelated issues in the areas of trade, investment, technology, services, money and finance; a position reinforced by the transfer to UNCTAD of the Programmes on Transnational Corporations and on Science and Technology for Development.

THE TRADE AND DEVELOPMENT REPORT 1994 ANALYSES THE ROLE OF THE GOVERNMENT IN INDUSTRIALIZATION IN EAST ASIA

The 1994 *Trade and Development Report*[1] (TDR) published in August analyses three main issues: the macroeconomic policies of industrial countries; the industrialization experience of East Asia; and the results of the Uruguay Round (UR).

With regard to the macroeconomic policies of industrial countries, the TDR warns that the world economy is emerging from a recession at a much slower pace than is normal for a cyclical recovery and advocates a number of remedial measures.

The 1994 TDR is accompanied by a supplement entitled *The Outcome of the Uruguay Round: An Initial Assessment*[2] which presents an extensive analysis of various aspects of the UR agreements. The TDR stresses the need for quickly devised measures to tackle the special problems of the least developed countries, which was recognized by the GATT contracting parties in Marrakesh. The next issue of the *Bulletin* will be devoted to the impact of the UR agreement on developing countries. The analysis of the 1994 TDR on industrialization of East Asia is summarized below.

The East Asian Model

In recent years, thinking has changed in favour of a minimal role for the State in industrialization. Unlike the "development economics" of the 1950s and 1960s, the emphasis is now on "government failure", the capacities of the private sector, the benefits of openness, the gains derived from letting the price mechanism determine resource allocation, and the costs of promoting industries selectively. However, the pendulum has swung too far. The experience of some of the world's most successful economies – Japan, Republic of Korea and Taiwan province of China – has shown that government intervention can be extremely effective in enhancing development.

The success of the "visible hand" of government in these economies reflects the fact that accelerating capital accumulation, industrialization, technological transformation, and growth and diversification of exports were the goals of economic policy not only in words but also in deeds. Unlike many other countries where the State intervened extensively, these Governments were not populist, and did not seek to back the interests of certain classes at the expense of business. Still less were they ideologically hostile to private ownership or initiative. Nor again, was

[1] *The Trade and Development Report, 1994* is a United Nations publication (Sales No. E.94.II.D.26, 173 pages).

[2] *The Outcome of the Uruguay Round: an initial assessment, supporting papers to the Trade and Development Report, 1994* (Sales No. E.94.II.D.28, 247 pages).

their prime purpose to grant special favours to certain private interests. Rather, they sought to support and increase the growth of the private sector. Not, it must be emphasized, by lowering the standards of living of workers and farmers, but by accumulating new wealth. Governments found that to serve business to the full, they had also to act as its master. They did so by shaping and manipulating market forces in order to ensure that individual firms acted not only in their own immediate self-interest, but also in harmony with the long-term interests of business as a whole.

Broadly speaking, Government intervention in Japan, Republic of Korea and Taiwan province of China was designed to counteract a number of factors that typically limit the capacity and willingness of individual firms in developing countries to undertake long-term investments and modernize their methods of production and organization. Government intervention was directed at accelerating the pace of growth, by changing the composition of industry through rapid capital accumulation, and by increasing the dynamism and efficiency of the industrialization process as a whole. It sought to make profitable sectors and activities which would not have been attractive to investors in a regime of laissez-faire, but which could be expected in due course to be able to withstand international competition. It also sought to stimulate the "animal spirits" of investors, strengthen their confidence, lengthen their time horizons, coordinate their expansion plans, and enlarge their command over resources.

Policy was formulated in partnership with business. In Japan, for instance, the key Ministries closely coordinated their policies with the private sector within the framework of an overall indicative plan. Deliberative councils and industry associations played significant roles in harmonizing the views of the public and private sectors and those of members of a particular industry. Cooperation between Government and business was facilitated by an oligopolistic structure whereby firms were organized into large, diversified business groupings (*keiretsu*) with cross shareholdings and subcontracting relationships with a large number of small– and medium-sized enterprises. The situation was similar in the Republic of Korea, where family-based business conglomerates, the *chaebols*, were predominant, having been deliberately encouraged by the Government to correct the dearth of entrepreneurship. This, and the fact that the banks were publicly owned, facilitated an industrial policy similar to that of Japan. In Taiwan province of China, public enterprises were more important because private firms, though numerous, were too small to establish the key industries which required large-scale investments and business organization.

"State-created rents" were the centrepiece of government intervention. As pointed out long ago by Schumpeter, entrepreneurial innovation requires the lure of high profits. The market mechanism alone is, however, often unable to provide sufficient rewards for pioneering by firms in a developing country, since these face experienced foreign competitors. In such circumstances, if private business is to increase production capacity and productivity, compete aggressively for increased market share, and establish new industries, it needs additional incentives and subsidies.

The most important subsidies came from repressing interest rates, and from divorcing domestic prices from international ones. Japan, the Republic of Korea and Taiwan province of China had greater levels of price "distortion" than, for example, Brazil, India, Mexico, Pakistan, and Venezuela. The most lucrative rents of the State, namely profits from import licences, were linked to strong export performance. As a general rule, subsidies carried conditions designed to improve overall economic growth.

Rapid industrialization reflected the swift pace of capital accumulation, without which these countries would have been unable to attain the productivity growth that they did. Their investment ratios were among the highest in the world. The initial boost came from abroad; but consumption was made to lag behind income growth to yield rising rates of domestic savings. It was in corporate rather than household savings that the East Asian economies greatly outperformed Latin America. It would seem that part of the explanation for this lies in the way the policy regime affected corporate profits. By lifting profitability through rent generation and other means, government intervention served simultaneously to enhance the incentive of firms to invest and their capacity to finance new investment: investment was channelled into activities that maximized overall growth; this in turn increased profits, by allowing capacity to be more fully utilized and by quickening the pace of productivity improvement, which increased the overall rate of investment. A "virtuous circle" was thus set in motion, with strong propensities to save, invest and innovate feeding and being fed by profits growth. The importance of the investment-profits nexus in these economies is indicated by the high share of profits in value added. Nevertheless, the income distribution was relatively egalitarian, largely because reforms in the system of land tenure had removed big landowners.

Growth went hand-in-hand with long-term transformations in the balance of payments, which lifted the foreign exchange constraint. Investment growth laid the foundations for future

export growth by expanding and modernizing production facilities, while current export growth made it possible to step up investment. Industrial policy kept up the momentum by encouraging private sector investment and innovation, and directing it to those sectors where international trade was likely to expand most or where the potential for productivity gains was greatest. This required giving priority to heavy and chemical industries, rather than allocating resources according to static comparative advantage.

In all three economies, Governments engaged in a variety of selective interventions. First, in their *trade policy*, all supported industrial deepening and the development of national firms, with selective incentive measures to promote exports and selective protection, using foreign exchange controls and import quotas and tariffs. They liberalized specific industries step-by-step only as they became internationally competitive.

Secondly, they restricted *foreign direct investment* to carefully selected sectors. FDI never exceeded 4 per cent and 2 per cent of gross fixed capital formation in the Republic of Korea and Taiwan province of China, respectively. Thirdly, the Republic of Korea, like Japan, put great effort into *research and development* to adapt and improve imported technology. Its spending on R & D reached 2.3 per cent of GDP, the highest among the developing countries. The Government provided significant fiscal subsidies and tax incentives. Fourthly, all three economies provided *fiscal support* of various kinds to facilitate equipment investment and capital accumulation to encourage enterprises to retain and reinvest earnings and to stabilize corporate earnings in the face of cyclical fluctuations and reduce investment risks. Fifthly, selective *financial* incentives were also given to promote the development of particular industries, and varied over time as industries evolved. Interest rates were kept generally low and stable, for example through preferential "policy loans" and "policy-based" lending. Designated industries also received priority in bank credit allocations, State investment funds and foreign exchange. Finally, *competition* policy was oriented towards both productivity and capital accumulation. Some circumstances required restricting competition, and others required promoting it. In order to implement industrial policy, Governments granted exemptions to firms, particularly in the export sectors, from laws governing monopolistic practices. They also sought to control capacity expansion and to coordinate market-sharing arrangements in order to achieve efficient-scale plants and manage excess competition. Mergers and cartels were encouraged to attain optimum production scale, particularly in the export sectors. Early entrants won monopolistic positions, but firms were encouraged to compete for the prize; and as the industry matured, other firms were allowed in, so as to generate the required degree of competition. Technology screening was also used to sharpen competition, as well as to upgrade technology.

Industrial deepening progressed rapidly and far. The evolution of the structure of industry did not merely conform to changes in comparative advantage brought about by the exhaustion of the supply of surplus labour. It also owed a great deal to the visible hand of government. As economies of scale were achieved, capacity utilization rates increased, and technological capabilities developed, the new industries became competitive in world markets. But typically, before that happened, they received substantial government assistance. For instance, in Taiwan province of China the Government led the market and sought to attract resources into particular sectors, establishing public enterprises where necessary. In the Republic of Korea, without government support, no private agent would have been willing to bear the risks of investing in the heavy and chemical industries.

In short, the "economic miracle" in these economies was not entirely a "miracle of the market". There can be no doubt that the profit motive was the force driving business, and that capitalist enterprises were primarily responsible for carrying out economic development. Yet, it is very unlikely whether without the guiding hand of government, the "animal spirits" of the entrepreneurial class would have reached such a high intensity, or flowed spontaneously into developmental activities in a sequence capable of ensuring a continuous dynamic momentum. The economic policy regimes in the countries concerned should not be seen as deviations from laissez-faire capitalism. They correspond to another paradigm altogether, consisting of a forced-pace advance of industrial capitalism under the auspices of a State that was simultaneously the servant and master of business enterprise.

The fact that the Japanese model of industrialization was successfully adopted (and adapted) by two other economies in the region suggests that it can also be applied to other places. That is to say, it can be transplanted everywhere, any time. Each country confronts at any moment a unique situation which depends on a host of factors, including its own size, level of development, and past history, as well as the state of the world economy, something that is in constant flux. Besides, it is also true that a number of countries (including some in East Asia which opened their doors wide to foreign direct investment) have been able to develop successfully with policies bearing little or no resemblance

(continued on page 16)

THE IMPACT OF TRADE LIBERALIZATION ON EXPORT AND GDP GROWTH IN LEAST DEVELOPED COUNTRIES

S.M. Shafaeddin[1]

It has been argued that developing countries, irrespective of their level of development and industrial base, should liberalize their trade regimes in order to expand production and exports, particularly exports of manufactured goods, and consequently promote their economic development.[2] This argument is advanced not only for a universal but also for an across-the-board liberalization of all industries and sectors.

The purpose of this summary is to report the main results of the study on the impact of trade liberalization and exchange rate devaluation on the poorer developing countries, i.e. least developed countries, which are also characterized by a low industrial base.

Least developed countries, particularly in Africa, have been increasingly marginalized in international trade, owing mainly to their high dependence on production and exports of primary commodities. Trade liberalization has been recommended to these countries with the aim of expanding GDP and exports and diversifying the production and export structure into manufactures. In terms of import liberalization, achievement has been impressive in many Least Developed Countries (LDCs), particularly in Africa. On the whole, however, it is the Asian LDCs which have had the best economic performance, mainly because they have benefited from the economic dynamism of the Asian region. There is no clear and systematic association between trade liberalization and devaluation, on the one hand, and the growth and diversification of output and exports, on the other. In fact, the performance of a number of early trade liberalizers among the LDCs has been worse than that of other countries. Out of 22 countries studied, four countries with real currency appreciation have had a better export performance (and a better economic performance in general) than those with real devaluations. These results contrast with the conclusions of some of the earlier literature on the low income and least developed countries.

Manufacturing has been the dynamic force behind GDP growth in LDCs; expanding capacity in manufacturing, where successfully achieved, has also contributed to rapid export expansion. Success or failure in this respect has been attributable to, *inter alia*, the volume of investment and the availability of imports. This experience is also shared with countries at higher levels of development (see Shafaeddin *op.cit.*)

In many LDCs, exports of manufactures did not increase; indeed, many of them witnessed deindustrialization. Where there was some export expansion, it was not accompanied by a building up of supply capacity. In most cases the expansion was based on simple processing and other traditional manufacturing activities.

A variety of socioeconomic, structural and external factors help to explain why liberalization did not work. An important factor has been the design of policy reforms, and of structural adjustment programmes in general. Insufficient attention was paid to structural conditions in LDCs, including their low level of development, low or non-existent industrial base, and an unfavourable external environment in the 1980s and early 1990s. The orthodox recommendations on trade liberalization neglected the importance of a sustained development of supply capacity and the limitation of market forces in building up such capacity. Further, such policy advice overemphasized the role of currency devaluation, overlooking the adverse effects on productivity, and the important role of imports in improving capacity utilization and increasing exports.

If a further marginalization of LDCs, particularly in Africa, is to be avoided, an alternative aporoach to trade policy reform is required. It must take into account the experience of LDCs and other developing countries, as well as each country's particular situation. Some general elements of this approach are outlined below.

Trade policy should be development-oriented, aimed on a selective basis at building up supply capacity, both at the national level and at the firm level; it should be an integral part of industrial and development strategy. As a tool of development, trade policy is not necessarily synonymous with trade liberalization, and success in "liberalization" *per se* is not a guarantee of "success" in development. Trade policy should serve

---

[1] *The author is a staff member of UNCTAD responsible for the Policy Clearance Unit. The views expressed in this paper are those of the author and do not necessarily reflect those of the UNCTAD secretariat. This summary is based on a study bearing the same title, published by UNCTAD in the Discussion Paper Series, no. 85.*

[2] *For a summary of the argument, see S.M. Shafaeddin "Trade policies and economic performance of developing countries in the 1980s", in R. Pendergast and H.W. Singer (eds.), Development Perspective for the 1990s (London: Macmillian), 1991, chapter 5 and "Investment, imports and economic performance of developing countries in the 1980s", in H.W. Singer, N. Hatti and R. Tandon (eds.), Adjustment and Liberalization in the Third World (New Delhi: Indus Publishing Company), 1991.*

to achieve the long-run objectives of development. Depending on the country concerned, it may comprise liberalization of trade in some goods, and it may at the same time include strengthening, or loosening, the degree of protectionism accorded to others; it may indeed include tariffs and/or quantitative restrictions for particular goods, or any other measures suitable for achieving the objectives of industrial and development strategies.

Trade policy may vary from one country to another depending on its particular needs, objectives and socioeconomic characteristics. For countries with little or no industrial capacity, such as LDCs, the main requirement is to develop supply capacity and lay the foundation for an expanding export sector. For countries which have already undertaken some degree of import substitution, the main issue is to make their industries competitive at home and abroad and to expand exports. Those with some export capability should aim at product upgrading and development so as to exploit new opportunities in domestic and international markets. Trade policy also needs to be dynamic, taking into account changes in the domestic and external situation over time.

Building up supply capacity and improving productivity requires selective government intervention in situations where no market yet exists, or the market is segmented or fails owing, for example, to the prevalence of dynamic externalities. Government intervention should also aim at development of the institutions required for supply expansion and a better functioning of the market, as necessary. Some initial protection of infant industry, whether aimed at the domestic or the external market, is thus warranted, but it should be eventually phased out. Moreover, trade policy can be mixed. Both import substitution and export development may constitute elements of a trade policy, at any given period in different industries and in a particular industry over time. In this respect it is interesting to note that the Republic of Korea started its industrialization by resorting to import substitution in the 1950s. As its industrial base developed, it applied a mixture of import substitution and export promotion strategies, the precise nature of which changed over time. While export incentives were provided to industries which were close to maturity, certain new industries were simultaneously chosen for import substitution and the import content of the established industries was reduced. In the 1980s and 1990s, the Republic of Korea sought to reduce the import content of investment and exports by protecting domestic production of capital goods and intermediate inputs.

Since resources are scarce, and all industries do not possess the same linkages and externalities, there is a need to establish clear criteria in selecting those industries destined for development, upgrading and export expansion, particularly where, as in LDCs, the initial industrial base is very small.

Supply capacity building requires the development of a physical, institutional and organizational capability, which calls for investment in physical assets (including infrastructure), human resources development, technological learning and/or innovation. It also calls, *inter alia*, for better information, and the creation of marketing channels. More importantly, in low income countries there is a great risk of both "market failure" and government failure. The risk of "government failure" however is not an argument for the lack of government intervention since the market also fails to develop rapidly or to correct its failure. Neither is the risk of market failure necessarily an argument for any type of intervention. What is needed is to reduce in the first place the risk of government failure. To do so, the machinery of government needs to be improved, so as to make for more effective decision-making and analysis, and to ensure the appropriate design, implementation and correction of policies as well as of market failure over time. Another important requirement is the availability of consumer goods, through higher domestic food production where possible, and other wage-goods in order to satisfy the demand of urban industrial workers and prevent inflation induced by shortages of such products.

In countries with a high ratio of imports to GDP, where manufactures are a small fraction of total exports and the manufacturing sector is highly import-intensive, incentives for exports of manufactures can be provided by selective measures aimed at improving productivity and competitiveness, rather than through currency depreciation. Such measures could include, for example, subsidies and other fiscal and financial measures for particular manufacturing activities. Devaluation may serve other purposes, but it is not necessarily the most desirable measure for promoting manufactured exports in such countries, since it provides a uniform incentive for all tradeable goods. Moreover, it disrupts the economy through its inflationary impact, particularly on production costs, through imported inputs. Such selective incentives, however, should be tied to the performance of the firms involved, in order to ensure that they achieve the desired objectives.

Finally, the success of alternative trade policy reforms requires external support in terms of finance, technical assistance and, most important, market access. This is an important challenge for the international community.

UNCTAD'S ACTIVITIES ON ENVIRONMENT AND SUSTAINABLE DEVELOPMENT

UNCTAD began a deeper involvement in environmental questions in preparation for UNCED. Subsequently, on the basis of the Rio Declaration and the adoption of Agenda 21, UNCTAD was requested to undertake work on certain aspects of environment and development. This mandate was confirmed at UNCTAD VIII and made more specific by the Trade and Development Board. UNCTAD is presently undertaking studies in the areas of: trade and environment; primary commodities and sustainable development; development and transfer of environmentally sound technology; environmental finance; and environmental management of ports and ships' wastes. Furthermore, the secretariat is providing technical assistance to developing countries on some of these concerns, particularly trade and environment.

Trade and environment

UNCTAD's special role in the field of trade and environment lies in the following: policy analysis and debate; conceptual work; consensus building among member States on the interaction between environmental and trade policies; the dissemination of information to policy-makers; and the encouragement and provision of assistance in capacity-building in developing countries.

UNCTAD's work also aims at building an empirical base for the debate on trade, environment and development through detailed country studies. In this context, UNCTAD has, with the support of UNDP and UNEP, commissioned a number of country case-studies from research institutes in developing countries and countries in transition. These include studies on Argentina, Brazil, Cameroon, Chile, China, Colombia, Costa Rica, Egypt, India, Indonesia, Jamaica, Malaysia, the Philippines, Poland, Thailand, Turkey, Uganda, Viet-Nam and Zimbabwe. These studies have found significant differences in perceptions and institutional capacities of developing countries as compared to developed countries in formulating environmental policies, including a lack of general administrative and monitoring capacity, and a limited scope of enforceable policy instruments. They show that measures other than protectionist ones should be favoured for tackling environmental problems and that production externalities are best addressed with incentive-based mechanisms which minimize enforcement costs in developing countries. Further policies aimed at promoting economic development such as improvements in infrastructural facilities would also simultaneously mitigate certain pressing environmental problems in developing countries. These include health-related externalities such as lack of clean water and clean air, as well as inability to deal with toxic wastes and chemicals.

The UNCTAD secretariat, through its technical cooperation programme, has been organizing training and capacity-building seminars which address the linkages between trade, environment and development.[1] Such training also helps negotiators in international deliberations on trade and environment by providing them with the necessary information on emerging issues. A preliminary version of the course materials has been developed with the financial support of the Government of Luxembourg and other donors and it is being finalized for publication. Pilot versions of the course have already been delivered at Kuala Lumpur, New Delhi, Barbados and Nairobi.

UNCTAD has initiated an extensive work programme on the trade aspects of "eco-labelling". To further this work, the first session of UNCTAD's Ad hoc Working Group (AHWG) on Trade, Environment and Development, established in May 1994, will discuss these issues in detail. Eco-labelling refers the use of labels to inform consumers that the product so labelled is environmentally friendlier than others in the same category. In markets with a consumer preference for "green" products, such a label can serve as an instrument of promotion. The criteria for awarding an eco-label, at least in theory, call for an overall assessment of the ecological impact of a product during its life-cycle. This includes its production, distribution, use, consumption, as well as final disposal. Despite advances in life-cycle analysis and environmental impact assessment, consensus does not yet exist on how to weigh different types of environmental impacts, nor on how to evaluate the net or total environmental impact of a product. In view of the challenges associated with quantifying global environmental priorities, estimating and quantifying different environmental impacts of products remains largely a reflection of national priorities.

It is in this context that the first session of the AHWG will examine eco-labelling, as well as market opportunities for "environmentally friendly" products (from 28 November to 2 December). Discussions will focus on (i) a comparative

[1] *Trademaster (1993), a video for use in UNCTAD's TRAINFORTRADE course on trade and the environment, is available in UNCTAD.*

analysis of current and planned schemes, with a view to discussing concepts such as mutual recognition and equivalencies; and (ii) an examination of the possibilities for taking into account the interests of developing countries in the elaboration of eco-labelling criteria.

Another important aspect of UNCTAD's work is the impact of environmental standards on trade and competitiveness, which will be discussed at the second session of the AHWG. Potential adverse effects of environmental product standards and regulations can be mitigated or avoided by adequate transparency and notification procedures. It will ensure that impacts of environmental policies on trading partners, in particular developing country exporters and countries in transition, are considered as early as possible. Moreover, most developing countries, particularly the poorer ones, in effect play only a modest role in international standard-setting through existing mechanisms. The determination of international standards should therefore involve various developing countries which are at different stages of development. It may also be necessary to examine the possibilities of harmonization of certain basic standards in order to provide trade and environmental benefits to developing countries. Harmonization need not imply that the same standard be applicable to all countries but it is essential to have a harmonized approach to dealing with environmental problems. Nevertheless, harmonization on a regional basis, or alternatively the development of minimum standards on a regional basis, could also be explored. The Trade and Development Board and AHWG will continue their work on these issues.

A high-level meeting on Trade, Environment and Sustainable Development, scheduled for 21-22 November 1994, has been organized jointly by UNCTAD and UNEP. The main purpose of this meeting is to exchange information and views on the linkages between trade, environment, and sustainable development. Through informal discussions it was hoped that politicians and other representatives would air their views openly, so as to achieve a better understanding of the range of policy options to trade and environment questions. Discussions focused on three themes: trade and competitiveness in relation to environmental policies; international environmental agreements and trade policy; and strengthening international cooperation, including the necessary institutional cooperation.

Environment, commodities and changing consumption patterns

Since UNCTAD VIII the Commodities Division has carried out a work programme in three parts based on the Rio Declaration and Agenda 21: improved natural resources management and environmental protection in the commodities sector; expanding the utilization, production and trade of environmentally friendly products; and, internalization of environmental costs and resource values.

The objective of the first part is to assist in the design and implementation of national and international policies such that the development of the commodity sector and commodity trade is consistent and mutually supportive of better management of natural resources and protection of the environment. This work has benefitted from extrabudgetary support of the Governments of the Netherlands and Norway as well as of UNDP. A roundtable meeting was held in 1992 on the links between market conditions and the intensity of resource use. Reports on agriculture, forestry, fisheries and mining were discussed by experts who concluded that there was a need to review in greater detail: the environmental externalities associated with production, consumption and trade of different primary commodities; the differences among countries in the environmental consequences of commodity production; the instruments which can be applied to internalize environmental externalities in each particular case; and, the need for concerted international action. Subsequently, several case-studies were undertaken to establish a solid factual basis aimed at: (a) assisting developing countries in designing and implementing policies to promote environmentally desirable production and processing of commodities, and (b) increasing the awareness in developed importing countries of the difficulties faced by Governments and producers in developing countries in the area of environmental protection in the commodities sector. The findings of the studies on the agricultural sector covering coffee, cocoa and rice production have been synthesized in document TD/B/CN.1/15; they indicate that cocoa, coffee and rice are either produced or could be produced in such a way that the environment, particularly the natural resource base, is not harmed but even improved. Whether production is, in practice, so organized is determined by a set of economic, technical, social and legal factors.

In the case of minerals, the focus was on studies on bauxite, alumina and aluminium. An inventory has been compiled of environmental legislation and practices in the mining and metal industries in selected countries in the Asia and Pacific region. Issues especially important for the sustainable development of mineral economies were examined at the conference on Development, Environment and Mining, held in June 1994 in Washington, organized in cooper-

ation with UNEP, the World Bank and the International Council on Metals and the Environment.

The second part of the work programme on primary commodities aims at assisting developing countries in (a) increasing export earnings through expanding sustainable production and exports of products which are environmentally preferable from the point of view of producing and consuming countries, and (b) benefitting from enhanced recycling programmes. In this context, a compendium of such products is being prepared so as to increase public awareness of the availability of substitution possibilities. Case-studies are being undertaken in several developing countries to identify the supply potential. With regard to recycled and re-usable materials, the aim of the work programme is the following: assist developing countries in their assessment of national recycling programmes; evaluate the likely impact of enhanced global recycling and re-use on the environment; natural resources management; the demand for virgin material and world commodity trade.

A first attempt has also been made to categorize environmentally preferable products and identify bottlenecks for their increased consumption and production; a report on this subject has been issued (TD/B.CN.1/25). Primary products are classified according to their market potential. The report also identifies the problems involved in encouraging the consumption, production and trade of products which cause insignificant environmental stress, as follows: lack of price competitiveness; lack of information constraints on the quality, properties, environmental advantages, production volume, production location, transport facilities, prices, etc.; absence of markets; lack of government policies, in particular in the areas of public procurement and standardization; and, the lack of international financial assistance.

The third part of the Division's work programme aims at developing the conceptual, institutional and practical aspects of internalization (TD/B/40 (2)/6). It is argued that in choosing the right policy mix of internalization instruments, account should be taken of their environmental effectiveness, efficiency in achieving objectives, impact on equity, political acceptability and flexibility in adapting to changes. A further UNCTAD study indicates that any attempt to internalize externalities should be directed at the sources of externalities of internalization policies. In a separate study, using both a static and a dynamic model, UNCTAD has also evaluated the impact of internalization on the agricultural sector, looking at various environmental and economic variables, including the competitiveness of different country groups.

The Standing Committee on Commodities recently recommended that UNCTAD place emphasis on theoretical and practical work regarding the internalization of environmental externalities, with particular focus on the following: impact of main distortions in price formation; improved information on the environmental implications of production, transportation, consumption and disposal of products; links between economic policies and the environment; and, enhancing the applicability of life-cycle analysis to commodity issues.

Environmental finance

UNCTAD's activities in this area benefit mostly from extra-budgetary resources from bilateral donors and include the following:

1. Research into the design and implementation of a global system of tradeable carbon dioxide (CO_2) emission entitlements as a cost-effective means of controlling global warming. The work began in 1991 as a contribution to UNCED and is continuing. The next phase of activities will focus on the establishment of a pilot scheme to test the essential elements of the proposed multilateral CO_2 emission trading system.
2. Research and development of a "joint implementation" (JI) demonstration initiative as a contribution to the development of appropriate guidelines under the United Nations Framework Convention on Climate Change. This initiative is being carried out with the collaboration of the Government of Costa Rica, and the support of the World Bank and the Environmental Defense Fund (EDF). Core activities include: carrying out detailed evaluations of alternative JI projects in Costa Rica; the preparation of project investment studies; and project execution during a pilot phase. The result of the pilot phase will be evaluated with a view to making recommendations for the development of appropriate guidelines and regulations for future JI investments;
3. Research into the revenue potential, equity and efficiency implications of and administrative arrangements for an internationally agreed tax on air transport.
4. Research into the use of fiscal mechanisms for environmental protection at the national level, focusing on carbon taxes and energy subsidies, and their implications for the development of internationally agreed fiscal mechanisms for financing sustainable development.
5. Research and technical assistance to developing countries in the use of debt-for-environment swaps. The work began in 1992 and several reports have been prepared on the subject of debt swaps; regional and country

seminars in Africa, Latin America and the Caribbean have been planned for 1995.

6. A programme of technical assistance to developing countries and countries in transition in the field of build-operate-transfer (BOT) arrangements for sustainable development has been initiated. The priority sectors include energy, telecommunications, transport, waste treatment, water treatment and distribution.

Environmentally Sound Technologies (ESTs)

The technological aspects of environmental questions have recently become a part of UNCTAD's work. Because of the importance attached to sustainable development, ESTs are seen as a precondition to sustainable development and to the protection of the environment. It is in this context that UNCTAD's Ad Hoc Working Group on the Interrelationship between Investment and Transfer of Technology selected ESTs as a component of its work programme. The first major practical activity in this area was undertaken by the secretariat in October 1993, when UNCTAD organized a workshop on ESTs in Oslo in cooperation with the Norwegian Government. The aim of the workshop was to elaborate on the mechanisms and channels for the generation, transfer, diffusion and financing of ESTs and to identify policies and measures to promote these ends. The workshop emphasized the key role of enterprises, particularly small and medium-sized, in the generation and transfer of ESTs and in improving environmental conditions; it also found that there was a strong case for Governments to assist the private sector to this end and to engage actively in promoting the generation and dissemination of ESTs.[2]

Ports and handling ships' wastes

Ports are strategically located to play an important role in the protection of the marine environment. Port development requires environmental impact assessments; port operations require risk-prevention and contingency plans for major accidents. UNCTAD has prepared a report (Sustainable development for ports – UNCTAD/SDD/PORT/1) which summarizes the activities undertaken by the international community to protect the marine environment; it provides information on technical issues, economic aspects, policies and strategies for ports.

The Polluter-Pays Principle is being applied to the treatment of ships' wastes. An international convention concerning marine pollution – MARPOL 73/78 – requires ships to deliver specific types of waste to ports and the ports to provide reception facilities for them. The International Maritime Organization (IMO) and UNCTAD have prepared a joint paper on the means of inciting ships and ports to meet these requirements. The paper was presented to the IMO Working Group on Ship/Port Interface in October.[3] All interests represented at that meeting – Governments, ports, shipowners and shippers – agreed that the Polluter-Pays Principle should apply: external costs should be internalized and economic instruments should be used to the greatest extent possible. Several ports and Governments are in fact already applying or preparing to apply mechanisms along the lines envisaged in the UNCTAD/IMO paper.

The IMO Working Group on Ship/Port Interface has constituted a Correspondence Group under the leadership of Norway to develop the economic mechanism in more operational detail. The UNCTAD secretariat has been included in the Correspondence Group.

---

[2] The reports of the Oslo Workshop and the Ad Hoc Working Group can be provided to interested readers on request from the UNCTAD Division of Science and Technology.

[3] This note is available as IMO document SPI 3/4.

UNCTAD PUBLICATIONS ON ENVIRONMENT AND SUSTAINABLE DEVELOPMENT

General

- *Fair Principles for Sustainable Development*, edited by Edward Dommen, published for and on behalf of the United Nations by Edward Elgar, Aldershot, 1993.
- *Développement durable: mots-déclic*, by Edward Dommen, UNCTAD discussion paper no. 80, February 1994.

Trade and environment

- *Environment and International Trade*, Report presented by the Secretary-General of UNCTAD to the Secretary-General of the United Nations Conference on Environment and Development (A/CONF.151/PC/48).
- *Sustainable Development: A Consideration of the Sectoral Links*, Report prepared for the first part of the thirty-ninth session of the Trade and Development Board (TD/B/39(1)/7).
- *Trends in the field of trade and environment in the framework of international cooperation*, UNCTAD's Contribution within its Mandate, to

Sustainable Development: Trade and Environment, Report prepared by the UNCTAD secretariat (TD/B/40(1)/6).

- *Trade and environment and UNCED follow-up activities in UNCTAD*, Note by the UNCTAD secretariat to the Commission on Sustainable Development (TD/B/40(2)/Misc.2).
- *Trade, environment, and development*, Note prepared jointly by the secretariats of UNCTAD and UNEP and submitted to the second session of the Commission on Sustainable Development (E/CN.17/1994/CRP.2).
- *The impact of environment-related policies on export competitiveness and market access*: Report prepared by the UNCTAD secretariat (TD/B/41(1)/4).
- *International cooperation on eco-labelling and eco-certification: Programmes and market opportunities for environmentally friendly products*, Report prepared by the UNCTAD secretariat (TD/B/WG.6/2).
- *UNCTAD's Technical Cooperation Programme on Trade and Environment* (distribution restricted) (TD/B/WG.6/Misc.1).
- *Report on the Workshop on Eco-labelling and International Trade*, Geneva, 28-29 June 1994 (distribution restricted) (TD/B/WG.6/Misc.2).
- V. Jha, R. Vossenaar and S. Zarrilli, *Eco-labelling and International Trade: Preliminary Information from 7 Systems*, UNCTAD, Geneva, discussion paper no. 70, 1993
- V. Jha and A. Teixeira (1994) *Are Environmentally Sound Technologies the Emperor's New Clothes?*, UNCTAD discussion paper no. 89, Geneva, 1994.
- UNCTAD/UNDP, *Trade and Environment: A South Asian View*, Macmilan, (in press).
- UNCTAD/SELA, *Trade and Environment: International Debate*, SELA, (in press).

Environment, commodities and changes in consumption patterns

- Sustainable development, intensity of resource use and international market structures for agricultural products (UNCTAD/COM/8).
- Market conditions and sustainable development of fishery resources (UNCTAD/COM/9).
- Physical and economic interactions in African traditional agriculture: implications for resource conservation (UNCTAD/COM/10).
- The links between market conditions, intensity of resource use and environmental impact: the case of mining (UNCTAD/COM/11).
- The links between market conditions and intensity of use of forest resources (UNCTAD/COM/12).
- Coffee and cocoa: Production and processing in Brazil (UNCTAD/COM/17).
- L'impact de la culture du cacao et du café sur l'environnement au Cameroun (UNCTAD/COM/18).
- Case study on eco-farming in China with special emphasis on rice (UNCTAD/COM/19).
- Environmental impact of coffee production and processing in El Salvador and Costa Rica (UNCTAD/COM/20).
- Natural rubber and the environment: A review (UNCTAD/COM/21).
- Rice and the environment: Environmental impact of rice production, policy review and options for sustainable rice development in Thailand and the Philippines (UNCTAD/COM/22).
- The effects of producing and processing cocoa on the environment: A case study of Nigeria (UNCTAD/COM/23).
- L'impact de la production et de la transformation du café, du cacao et du riz sur l'environnement en Côte d'Ivoire (UNCTAD/COM/24).
- The internalization of environmental costs and resource values: A conceptual study (UNCTAD/COM/27).
- Environmental aspects of bauxite and aluminium production in Indonesia (UNCTAD/COM/39).
- Environmental legislation for the mining and metal industries in Asia, India, Indonesia, Malaysia, Papua New Guinea, Philippines, Thailand and Viet-Nam (UNCTAD/COM/40).
- The environmental effects of agricultural production and related measures (UNCTAD/COM/42).
- Enhanced recuperation and recycling: implications for primary commodity producers in developing countries – the case of ferrous scrap versus iron ore (UNCTAD/COM/43).
- Environmental problems and commodity trade in Eastern Europe: An overview and the case of cotton and rice in the Aral lake region (UNCTAD/COM/44).
- The effect of the internalization of external costs on sustainable development (TD/B/40(2)/6).
- Identification of means by which the competitiveness of natural products with environmental advantages could be improved: Reducing the environmental stress of consumption without affecting consumer satisfaction (TD/B/CN.1.25).
- Fostering sustainable development in the commodity field: Experiences concerning environmental effects of commodity production and processing: synthesis of case studies on cocoa, coffee and rice (TD/B/CN.1/15).

Forthcoming studies:

- Environmental aspects of bauxite, alumina and aluminium production in Brazil.*
- Environmental aspects of bauxite and alumina production in Jamaica.*
- Indonesian report: Studies on natural resources management in the commodity sector, coffee, cocoa and rice.*
- Etude de cas sur la pêche en République de Guinée.*
- Internalization of environmental damages in agriculture: Effects on environmental and economic variables.*
- A brief review of developments in the Solomon Islands and their impact on the environment.*

Environmental Finance

- Combating global warming – Study on a global system of tradeable carbon emission entitlements (UNCTAD/RDP/DFP/1).
- Possible rules, regulations and administrative arrangements for a global market in CO_2 emissions (UNCTAD/GID/8).
- An analytical approach to evaluating the national net costs of a global system of tradeable carbon emission entitlements (UNCTAD/GID/9).
- The strategy of joint implementation in the framework Convention on Climate Change (UNCTAD/GID/10).
- Controlling carbon dioxide emissions: The global tradeable permit system (UNCTAD/GID/11).
- The application of an internationally-agreed tax on air transport: Revenue potential and administrative arrangements (UNCTAD/GID/12).
- Fiscal mechanisms for environmental protection: Carbon taxes and energy subsidies (UNCTAD/GID/13).
- Conversion of Official Bilateral Debt (Volumes 1 & II) (UNCTAD/GID/DF/1).
- Conversion of Official Bilateral Debt: Survey of regulatory and budgetary frameworks, and official debt marketization (Volume III) (UNCTAD/GID/DF/7).
- Recent trends and developments in debt conversions (Volume IV) (UNCTAD/GID/14).
- Training manual on debt conversions (UNCTAD/GID/15).
- Private financing of infrastructure projects in developing countries: Build-operate-transfer (BOT) arrangements (UNCTAD/GID/DF/5).

** To be issued soon.*

ENVIRONMENTALLY SOUND TECHNOLOGIES, STANDARDS AND TRADE

Veena Jha and Ana Paola Teixeira[1]

Suggested mechanisms for preserving global and local environments generally reflect the need to internalize environmental costs through the development of domestic environmental standards. Such standards are designed with a view to encouraging producers to use environmentally sound technologies or change their production processes and product design so that it becomes more "environmentally friendly".

However, the implementation of domestic standards has suscitated a widening international debate. At the heart of this debate lies the fear that stricter product standards in the developed countries may act as barriers to exports from developing countries or in some cases become forms of disguised protectionism. Thus, for market access, foreign producers, particularly those from the developing countries, would be pressed to adapt processes or adopt new ones above and beyond domestic requirements to redesign products simply in order to comply with unnecessarily stringent environmental standards of foreign target markets.

The need to make trade and environmental objectives mutually compatible is, however, real. Concern for the environment is becoming an increasingly important factor of international competitiveness in numerous sectors, and a requisite in order to maintain and increase market share. In the near future, stringent standards for product performance, safety and environmental impact may contribute to creating and upgrading the competitive edge, as such standards pressure firms to improve design, quality and technology while taking into account customer (and social) needs and concerns.

In the case of developing countries, part of the solution to the quest for making trade and environmental goals mutually compatible may lie in the development and transfer of environmentally sound technologies (ESTs) – in conjunction with the setting of domestic environmental standards. ESTs could both enhance trade and help preserve the environment by: (a) making products

[1] *This article is a summary of UNCTAD's Discussion Paper no. 89, entitled "Are Environmentally Sound Technologies the Emperor's New Clothes?" The authors are staff members of UNCTAD in the International Trade Division and the Science and Technology Division respectively. The views expressed in this paper are those of the authors and do not necessarily reflect the opinion of the UNCTAD secretariat.*

originating from developing countries compatible with environmental standards abroad and thus improving their trading opportunities and/or international competitiveness; (b) improving the local environment of these countries; and (c) arresting the deterioration of the global commons. By the same token, limited access to ESTs could inhibit the ability of developing countries to implement new and stringent environmental standards and regulations domestically and also exacerbate any negative effects of environmentally related trade restrictions imposed by developed countries.

An important question which arises in this context is whether the process of transfer of ESTs – i.e. the demand for ESTs and the mechanisms for acquiring these technologies – raises issues which are sufficiently distinct from those surrounding other technologies. In other words, are ESTs the emperor's new clothes – or old wine in new bottles – or is there a justification for treating ESTs as a separate category of technology, the transfer of which is likely to require greater international cooperation?

This paper argues that ESTs are not the emperor's new clothes and definitely not an invisible good. This is because the need to comply with standards is not merely defined by commercial interests, but also by an international consensus on protecting the environment from degradation. The difference between ESTs and other technologies rests on the need to link the transfer of ESTs to compliance with standards which are in turn linked to environmental concerns.

An argument opposing this distinction between the transfer of ESTs and the transfer of other technologies could be advanced; it rest on the fact that many technologies are already designed to meet stringent product-quality and performance standards, as in the case of medical equipment. However, in the environmental context, it is often the production processes that cause more environmental damage than the products themselves. Hence environmental protection measures and the consequent standards are usually designed to influence production and processing methods. Thus many standards become technology-specific, unlike performance or quality standards applying to other types of technologies.

Empirical evidence shows that the development of ESTs takes place largely in the developed countries and trade in ESTs has generally been among firms in OECD countries with very few of these technologies being shifted to firms in developing countries. Access to ESTs may, in some cases, be a fundamental element of compliance with environmental standards. It is noteworthy that access to these technologies in the case of developing countries' firms remains inadequate. There are a number of reasons for this, for example, the cost of these technologies, patenting and licensing mechanisms, competitive subsidies and others. Moreover, in some cases, limited access arises in part because of the way standards are formulated and implemented in some OECD countries. In fact, the very definition and characteristics of ESTs may depend somewhat on environmental regulations, standards, or the 'greening' of consumer preferences.

The implications of global and local environmental concerns for trade and technology and the use of trade sanctions for enforcing standards show that firms in developing countries will need to embark upon a drive for the development and transfer of ESTs. Of these two options, at least in the short run, the transfer of ESTs is likely to be the preferred solution for several firms, in order to safeguard trading opportunities from the consequences of trade measures and instruments.

The transfer of ESTs through purchasing, licensing and FDI involves overcoming a number of constraints on the supply and demand side that hamper effective transfers from taking place. The single major constraint to the adoption of ESTs is direct financial costs, followed by the absence of domestic environmental standards and regulations which play an important role in encouraging demand for these technologies. In addition, the lack of capabilities to assess environmental and technological needs, the shortage of capabilities to operate these technologies, the informational barriers resulting from the structure of the ESTs market, and the absence of domestic incentives for stimulating both the production of clean products and the transfer and development of ESTs are all important factors. If the global objective of sustainable development is to be achieved, these constraints need to be addressed by firms, Governments – of both developing and developed countries – and international organizations, in order to facilitate the process of transfer of ESTs and to contribute to the development of local capabilities in this realm.

The main arguments currently being raised against the adoption of domestic environmental standards and regulations by developing countries are the following. First, environmental standards and regulations are not a priority item on the agenda of developing countries; secondly, domestic standards and regulations are likely to hurt the international export competitiveness of developing countries by creating compliance costs; and thirdly, non-compliance is anyway likely to be high and enforcement expensive. These arguments may rest on shaky grounds. The adoption of at least a minimum level of environmental standards and regulations that establish basic thresholds for environmental performance in areas affecting mostly local envi-

ronments could have important beneficial effects. Local demand for ESTs would be strengthened, triggering demand for related goods and services and, raising the need for education on ESTs. Furthermore, a clear signal would be sent to the international community that the environment had been given national priority on the development agenda. This could in turn assist in securing much needed funding and thereby help to cover the direct financial costs of ESTs and avoid the migration of "dirty" industries. Last, but not least, the efforts made would help preserve the environment of developing countries.

On the supply side, given the fragmented structure of the market for ESTs, half of which is composed of small firms, information barriers regarding small and medium-sized suppliers of ESTs are very high. OECD Governments could provide incentives for such firms to engage in negotiations with developing countries' firms. These incentives could take various forms, such as for example the organization of regional EST fairs in developing regions for small and medium-sized suppliers to identify potential buyers and licensees. Another possibility could be the creation of "sponsorship" programmes through which firms of all sizes could transfer their internal environmental practices to firms in developing countries.

Finally, both supply and demand for ESTs are likely to be stimulated by policies that promote trade and growth in developing and developed countries alike, along with policies that contribute to more integrated developmental and environmental objectives. It should be noted that the transfer of ESTs is not the only solution for improving the environment and for stimulating trade promotion. It is only one among several initiatives (such as multilateral agreements relating to trade and environment, standardization procedures which reflect the developmental needs of developing countries, etc.). These must be undertaken simultaneously so as to alleviate environmental problems while promoting trade and development.

TDR ANALYSES... *(continued from page 6)*

to those of Japan. Moreover, numerous countries have failed precisely because they treated government intervention as a panacea.

These differing experiences suggest that our state of knowledge is as yet insufficient to provide a sure recipe for industrialization and development in all circumstances. **There may not be one right development strategy but several, depending on time and place.** Rethinking development policy is a task of utmost importance and urgency. It has started, but it is not yet finished.

UNCTAD CELEBRATE ITS THIRTIETH ANNIVERSARY

The first part of the forty-first session of the Trade and Development Board met from 19 to 30 September 1994. The Board's discussions on the international implications of micro-economic policies and issues concerning interdependence were underpinned by the *Trade and Development Report 1994*. In its agreed conclusions following discussion of the East-Asia development experience, the Board rejected simplistic recipes for development and called for further reflection on the implications of the East-Asia experience for other countries including those of South and South-East Asia. For a further discussion of this subject, see also pages 4 to 6. The Board also held discussions on trade and environment issues during which it considered the impact of environment-related policies, export competitiveness and market access, with particular focus on the concerns of developing countries. In its agreed conclusions, the Board stressed in particular: the importance of transparency and international cooperation in the area of product measures; the need to identify and analyse newly emerging environment measures; and, the need to place the debate on process standards. The outcome of the Uruguay Round was also considered by the Board. The discussion contributed to defining further UNCTAD's substantive role in the post-Uruguay Round international trading system as well as its relations with the future World Trade Organization (WTO). Among the major conclusions arising from these discussion were the following:

- Assisting developing countries, especially the least-developed countries, to take maximum advantage of the new opportunities and meet challenges deriving from the implementation of the agreements. The specific problems of the least-developed countries and net food-importing developing countries were duly taken into account and the UNCTAD secretariat is expected to look into the issue of a "safety-net" to assist such countries in dealing with the transitional cost of the adjustment;
- Strengthening institutional and human resource capacities and information management in developing countries, thus enabling them to participate actively in the WTO. In this context, there was a call for fruitful and complementary division of labour between UNCTAD, WTO and the ITC;
- Continuation of background work and consensus-building on trade and economic

policy issues before they become the subject of negotiations in the WTO. There was a consensus that UNCTAD would play a key role in undertaking policy analysis of new and emerging issues on the international trade agenda.

The Board also considered the terms of reference for an Ad-hoc Working Group on Structural Adjustment for the Transition to Disarmament, which will meet in the course of 1995.

On the occasion of the first part of the forty-first session, the Board celebrated the thirtieth anniversary of UNCTAD, the culmination of which was the adoption of a declaration containing an assessment of the trends in the world economy and the new challenges they entail, the future work of UNCTAD and the commitment of member States to its development objectives and their political support for the institution. The text of the declaration is reproduced below.

DECLARATION ON THE THIRTIETH ANNIVERSARY OF UNCTAD

"Since its creation 30 years ago, UNCTAD has made a major contribution to international cooperation for development. Its role has evolved in response to changing needs and circumstances, while preserving its development mission enshrined in General Assembly resolution 1995 (XIX). UNCTAD VIII marked a turning point in the institution's history. The Cartagena Commitment launched the New Partnership for Development and set in motion a wide-ranging process of adaptation to new realities. This process encompasses a comprehensive policy reorientation and an improved capacity for conceptual innovation, far-reaching institutional reforms and more efficient working methods. Member States conducted a Mid-term Review of the implementation of the Cartagena Commitment and initiated further changes designed to make UNCTAD more responsive to their needs and thereby better placed to make a tangible contribution to growth and development. They look forward to continuing and further improving that process at UNCTAD IX.

Past achievements should encourage UNCTAD to pursue its development mission with new vigour at a time when long-standing problems are being compounded by new ones. Among the major sources of change is the intensifying process of globalization of economic activity and of interdependence among countries and between sectors of the world economy, and its implications for sustainable development. This offers opportunities but also presents challenges. A growing number of developing countries have been able to seize the opportunities arising from these phenomena and have registered rapid economic and social progress, including through greater reliance on market mechanisms and better management. Those developing countries with weak economic structures and burdened with such constraints on development as debt overhangs, commodity dependence, natural disasters and political strife, continue to lag far behind the mainstream of global economic activity.

Each State and society has the primary responsibility for its own social and economic development. However, the globalization process has reduced the autonomy of governments in the conduct of national economic management, and is creating challenges and opportunities for the systems, structures and arrangements that underpin international economic relations. This requires appropriate efforts to overcome difficulties in adapting national and international structures to the new international economic environment. Furthermore, the internationalization of financial, product and service markets, coupled with rapid advances in information and communication technologies, represents a growing challenge to the competitiveness of countries and firms. Some of these factors risk accentuating the trend towards a world economy in which a large number of developing countries, particularly the least developed among them, will be unable to keep pace and may continue to be locked in a vicious circle of poverty, underdevelopment and environmental degradation. The international community should therefore take appropriate action in support of the weaker economies in the Spirit of Cartagena.

A fresh vision of development able to deal with these challenges is therefore required. Implementing such a vision will require a strengthened cooperation for development between developed and developing countries. It will also call for an integrated approach to issues in the fields of trade, finance, investment, services, technology and environment.

UNCTAD can make a valid contribution to a better understanding of the contemporary development problems. As the most appropriate focal point within the United Nations proper for the integrated treatment of development and interrelated issues in key areas, and particularly since the incorporation within it of programmes relating to transnational corporations and to science and technology, UNCTAD is well placed to conduct a systematic exploration of the interlinkages between economies, sectors and issues and to promote consensus for the adoption of appropriate policies. UNCTAD will also have an important role in undertaking policy analysis on the impact of the Uruguay Round Agreements and on new issues as they come to the fore of the international trade agenda.

Member States reaffirm their commitment to the primary development objectives of UNCTAD and undertake to reinforce their political support for the institution and for its important role, as a member of the wider United Nations family, in strengthening the global Partnership for Development by addressing the economic and development problems of all countries, particularly of developing countries."

INTERNATIONAL SYMPOSIUM ON TRADE EFFICIENCY, COLUMBUS, OHIO, 17-21 OCTOBER, 1994,

In an unprecedented gathering, more than 2,000 decision-makers from both the public and private sectors, including Prime-Ministers, Vice-Premiers and some 80 Ministers from 136 countries, adopted the Columbus Declaration on Trade Efficiency. They also made a set of innovative recommendations designed to reduce the cost of international trade transactions by some 100 billion dollars a year through the introduction of efficiency measures in all aspects of international trade. The Symposium had as a primary objective increased integration into the mainstream of international trade of the developing countries, especially the least-developed among them, and small and medium-size enterprises from around the world. The Symposium was the culmination of two years of intensive preparatory work in Geneva in the context of the trade efficiency initiative taken at UNCTAD VIII in 1992.

The Ministers launched a Trade Point Network which is to provide electronic linkages among national trade points. Trade points bring together under a physical or virtual roof various actors in the trading chain. Furthermore, a set of practical recommendations were adopted addressed to both Governments and trade operators for action in six trade-related services, including the following: transport, telecommunications, banking and insurance, trade information, business practices and business information. The aim is to make trade more efficient through *inter alia* electronic communications, reducing red tape or paper work and supplying market information.

This Symposium, hosted by the Government of the United States of America and the City of Columbus, held under the auspices of UNCTAD, was chaired by Mr. Ron Brown, Secretary of Commerce of the United States of America. The United Nations Symposium was complemented by three other major events within the context of the World Summit on Trade Efficiency: a Global Executive Summit involving chief executive officers of leading enterprises in international trade, a Global Summit of Mayors and a World Trade Efficiency and Technology Exhibition. As such, bringing together various partners of the international trading community, joined in a common effort to provide support to a truly global approach to international trade at the micro-economic level, became the strength of this major endeavour. This innovative approach by the United Nations offered solutions to both the public and private sectors for developing countries and countries in transition alike.

The Symposium's format departed radically from other ministerial meetings in that four panels were established at the Ministerial Segment to discuss: "truly global trade", "technology and trade", "the role of governments", and, "trade efficiency and development". These were moderated by professional journalists (Guy de Jonquières, Business Editor of *The Financial Times*, Denis Gilhooly, Publishing Editor of *Communications Week International*, and Lou Dobbs, Senior Vice-President of CNN). The Columbus Declaration and the set of recommendations which had previously been negotiated in Geneva were adopted by the Ministers during the opening ceremony of the Ministerial Segment, at which Mr. Boutros Boutros-Ghali, Secretary-General of the United Nations, set the intellectual tone. Mr. Richard Butler, current President of the Economic and Social Council, provided a major policy orientation to the discussions. Mr. Al Gore, Vice-President of the United States of America, in his interactive video conference, encouraged all Governments to promote private investment, competition, a flexible regulatory framework, access to information networks and universal network services. The result of the panel discussions was an in-depth and lively debate on the issues at stake.

The outcome of the Symposium has been described as yet another demonstration of UNCTAD's ability to respond in an innovative manner to the changing requirements of its member States and to tackle specific development problems and present practical solutions for dealing with them. The success of the Columbus Meeting can also be gauged by the fact that, with the launching of the Global Trade Point Network, intentions were declared to establish 47 more trade points around the world, bringing the total to 104 in the weeks following the Symposium. The Trade and Development Board will ensure follow-up and consider other innovative ideas which emerged at the Symposium, such as the establishment of a Trade Efficiency Review Mechanism, akin to the GATT Trade Policy Review Mechanism, and the best and most efficient use of electronic highways for more efficient international trade in the future.

---

*To **UNCTAD BULLETIN** readers: We welcome books for review in future issues. Interested authors and publishers should send a copy of their book to the Editor who reserves the right to choose those suitable for review.*

REVIEWS

I. DATA AND STATISTICAL PUBLICATIONS

UNCTAD has published a number of statistical reviews: the *Handbook on International Trade and Developing Statistics*; the *Statistical Survey on Insurance and Reinsurance in Developing Countries*; the UNCTAD *Commodity Yearbook*; and the *Statistical Pocket Book*.

HANDBOOK OF INTERNATIONAL TRADE AND DEVELOPMENT STATISTICS, 1993

United Nations publication
Sales No.E.94.II.D.24, US$ 80

The *Handbook of International Trade and Development Statistics*, 1993, contains seven main parts and one annex, with data covering: the overall value of trade; the volume, unit value and terms of trade, commodity prices and consumer prices; the network of world trade by origin and destination; the commodity structure of imports and exports for individual countries; financial flows, aid and balance-of-payments data; and basic indicators of development, including population, GDP, agricultural and industrial production, energy and other selected economic and social indicators. It also includes a section of special studies, including the share of international trade in domestic consumption in major industrial markets; detailed terms of trade estimates for individual countries; special tables covering trade, national accounts and other economic and social indicators relating to CIS countries.

STATISTICAL SURVEY ON INSURANCE AND REINSURANCE IN DEVELOPING COUNTRIES

United Nations publication
UNCTAD/SDD/INS/5, 1994, 468 pages.

The *Statistical Survey on Insurance and Reinsurance in Developing Countries* covers the period 1983 to 1990. The Survey constitutes the most comprehensive compendium of statistical information to date with regard to the insurance sector of 101 developing countries. It includes three sections. Section I describes the structure of the insurance markets in developing countries. It shows that the prevalence of the State is still considerable in the insurance markets of a number of countries and that life and long-term insurance businesses have not yet reached their expected development stage in most developing countries. Section II analyses the economic significance of insurance markets. Insurance premiums are only equivalent to an average of 1.64 per cent of total gross domestic product (GDP) in the developing countries surveyed, compared to 7.77 per cent for OECD countries. Section III presents loss, expenses and retention ratios in the non-life insurance markets and shows that cost structures vary considerably. The underwriting performance of the different insurance markets also varies widely. The Survey likewise provides extensive information on individual insurance markets in 101 developing countries.

UNCTAD STATISTICAL POCKET BOOK

United Nations publication
Sales No.E.94.II.D.32, US$ 15

On the occasion of its thirtieth anniversary, UNCTAD published a *Statistical Pocket Book* which provides background statistics, illustrated by graphs, on long-term trends and recent changes in the field of trade and development. Issued in a concise form for easy reference, it serves both policy makers, in government and business, as well as the public at large. The *Statistical Pocket Book* contains facts and figures relating to output and trade structures together with an overview of socioeconomic indicators depicting the quality of life in all countries; salient statistics on trade in services, tariff structures and non-tariff barriers to trade are also given along with financial perspectives, which are revealed in terms of the evolution of the balance of payments, debt burden, emerging capital markets and new data on various aspects of foreign direct investment. Special features are highlighted in a section covering the impact of new environmental regulations on investment patterns and trade flows, South-South trade, the development challenge facing the least developed countries and the Palestinian economy in the West Bank and Gaza Strip.

UNCTAD COMMODITY YEARBOOK 1994

United Nations publication
Sale No. E/F.94.II.D.22 US$ 70

This is the eleventh edition of UNCTAD's principal statistical publication in the commodity field. It presents in one volume comprehensive country-specific statistical data for production, trade and consumption of selected agricultural primary commodities and minerals, ores and metals up to 1992. As in the past, the *Yearbook* is divided into three parts. Part One gives trade values and shares of commodity aggregates and the direction of commodity exports. Part Two covers trade

in selected agricultural commodities by region and selected countries from 1987 to 1992. Part Three contains statistics on minerals, ores, metals and crude petroleum by regions and countries, over the same period. It also includes an annex with commodity price data and special studies.

II. UNCTAD DISCUSSION PAPERS

THE PAYMENT ARRANGEMENTS IN THE TRADE OF CEECs AND DEVELOPING COUNTRIES BETWEEN 1986 AND 1994

Sebastian Schich
UNCTAD Discussion Paper – No. 88, August 1994

The *Paper* discusses the developments in the availability of international payments arrangements to Central and Eastern European countries (CEECs) and developing countries. It provides information on those arrangements that has not previously been systematically collected and analysed. It concludes that these arrangements are significantly less favourable than those used in trade among developed countries. In particular, there is a tendency towards the use of unconfirmed letters of credit. Overall, the terms available to developing countries may have slightly improved between 1986 and 1994, while the ones available to CEECs have significantly worsened.

THE INVESTMENT-PROFITS NEXUS IN EAST ASIAN INDUSTRIALIZATION

Yilmaz Akyüz and Charles Gore
UNCTAD Discussion Paper – No. 91, Oct. 1994

Both neoliberal and revisionist interpretations of East Asian industrialization have concentrated on the relative importance of government intervention and the market mechanism in resource allocation. They have neglected the role of Government in promoting capital accumulation and accelerating growth. This *Paper* argues that high rates of investment played a major role in the exceptionally rapid growth of East Asia. The growth of corporate profits and savings was critical to this process. Government policy animated the investment-profits nexus through creating rents and pushing profits above the levels that could be attained under free market conditions.

SAVING AND INVESTMENT IN LATIN AMERICA

Manuel Agosin
UNCTAD Discussion Paper – No. 90, Oct. 1994

This *Paper* examines why the saving and investment rates of Latin American countries have been so low. First, it compares the saving and investment ratios of eight Latin American countries, and their likely determinants, with those of five dynamic Asian countries. Secondly, it estimates an econometric model for the ratios to GDP of private investment, public investment and investment in machinery and equipment. The causal factors for the worse investment performance of Latin America are: considerably slower and more erratic economic growth; the much larger negative shock from the debt crisis; the slower expansion and more erratic behaviour of bank credit to the private sector; negative or very high interest rates in Latin America; and, a greater degree of economic instability.

III. OTHER UNCTAD PUBLICATIONS

WORLD INVESTMENT DIRECTORY

Volume IV – Latin America and the Caribbean
United Nations publication
Sales No. E.94.II.A.I0, US$ 65

This fourth regional volume forms part of the *World Investment Directory* series. Produced by the UNCTAD Division on Transnational Corporations and Investment, the *Directory* is a comprehensive source of data on foreign direct investment (FDI), basic financial data on the largest transnational corporations (TNCs) by sector, information on the legal framework within which such investment takes place and selected bibliographical information pertaining to FDI and TNCs in 24 economies of the Latin American and Caribbean region. The volume also includes individual profiles for a number of countries in the region. It should enable interested users to undertake a more thorough analysis of trends in FDI and TNCs, including the regulatory frameworks governing these investments and their impact in an increasingly integrated and global economy.

UNCTAD REVIEW 1994

United Nations publication
Sales No.E.94.II.D.19, US$ 28

This special thirtieth anniversary issue of the UNCTAD Review features 11 articles:

- *The policy harmonization debate: What can developing countries gain from multilateral trade negotiations?*
  Diana Tussie
- *Is free trade compatible with sustainable development?*
  Anil Markandya
- *Capital flows: Globalization of production and financing development*
  Jan Kregel

- *Determinants of direct foreign investment and its connection to trade*
  Gary Hufbauer, Darius Lakdawalla and Anup Malani
- *Commodity market trends and instabilities: Policy options for developing countries*
  Alfred Maizels
- *Industrial policy: The role of government in promoting industrial and technological development*
  Sanjaya Lall
- *Growing independently of the world economy: Asian economic development since 1980*
  Ajit Singh
- *International competitiveness and the macroeconomics of capital account opening*
  Ricardo Ffrench-Davis, Daniel Titelman and Andras Uthoff
- *Industrial development in East Asia: What are the lessons for Latin America?*
  David Felix
- *From adjustment to development in sub-Saharan Africa*
  Gerry K. Helleiner
- *From "great leaps forward" to normalcy: Some issues in transitional policies in Eastern Europe*
  András Köves

PROCEEDINGS OF G.24 CONFERENCE
United Nations publication
UNCTAD/GID/G24/4, Volume IV, 1994, 314 pages

This volume is a special issue of UNCTAD's series "International Monetary and Financial Issues for the 1990s". It contains contributions to a Conference on "The International Monetary Financial System: Developing Countries Perspectives" which was held on the occasion of the 50th anniversary of the Bretton Woods conference on 18-20 April 1994, in Cartagenas de Indias, Colombia. The content is as follows:

INTRODUCTION
Gerald K. Helleiner

GLOBAL MACROECONOMIC MANAGEMENT AND THE INTERESTS OF DEVELOPING COUNTRIES
- *Implications for IMF policies arising from effects on developing countries of industrial country macroeconomic policies*
  Azizali F. Mohammed
- *Global macroeconomic management and the developing countries*
  Yung Chul Park and Sangmoon Hahm

INTERNATIONAL LIQUIDITY, CAPITAL MOBILITY AND THE DEVELOPING COUNTRIES
- *International liquidity and the needs of the world economy*
  Ariel Buira
- *The management of capital flows: Domestic policy and international cooperation*
  Guillermo A. Calvo

DEVELOPMENT FINANCE
- *Foreign resource flows and financing of development in sub-Saharan Africa*
  Benno J. Ndulu
- *Financing economic development in low-income countries*
  Joseph Abbey

ISSUES IN TRANSITION AND ADJUSTMENT AND THE INTERNATIONAL FINANCIAL INSTITUTIONS
- *Structural adjustment and reform in developing countries*
  Montek S. Ahluwalia
- *Transition and international financial institutions*
  Dragoslav Avramovic

RELATIONS BETWEEN THE IMF, THE WORLD BANK AND THE DEVELOPING COUNTRIES
- *The roles of international financial institutions: A Latin American reassessment*
  Patricio Meller
- *IMF-World Bank policy advice: The coordination/cross-conditionality question*
  Roberto Junguito

GOVERNANCE ISSUES WITHIN THE IMF AND THE WORLD BANK
- *From supplicants to shareholders: Developing countries and the World Bank*
  Moises Naim
- *Governance of the Fund*
  Alexandre Kafka

THE REGIONAL DEVELOPMENT BANKS AND THE WORLD BANK
- *The evolution of the multilateral development banks*
  Devesh Kapur and Richard Webb
- Regional development banks and the objectives of the Bretton Woods Institutions
  Delphin G. Rwegasira and Henock Kifle

THE DEVELOPING COUNTRIES' INFLUENCE WITHIN THE INTERNATIONAL MONETARY AND FINANCIAL SYSTEM
- *Developing country cooperation in international financial institutions*
  Lal Jayawardena
- *Back to the future: Small developing countries in the international monetary system*
  Terrence W. Farrell

NOTES

UNCTAD/FUINCA COOPERATION AGREEMENT

On 19 July 1994, Carlos Fortin, the Officer-in-Charge of UNCTAD, and José Manuel Moran, the President of the Fundación para el Fomento de la Información Automatizada (FUINCA), signed a Memorandum of Cooperation. FUINCA is a Spanish non-governmental organization whose objective is to carry out activities to promote the supply of electronic information services in Spain, bearing in mind both the opportunities offered by the European Single Market of 1992 and cooperation with Latin American countries. The Memorandum consolidates the cooperation between the Foundation and UNCTAD and facilitates joint projects in developing countries in the field of electronic information services, especially for trade in services. It establishes a basis for periodic consultations and discussions and for an exchange of information, statistics and economic and technical documentation. In particular, FUINCA shall enjoy access to and use of UNCTAD's data on international trade and trade measures relating to services.

UNCTAD FORMULATES RECOMMENDATIONS TO THE WORLD SUMMIT FOR SOCIAL DEVELOPMENT

Seventy countries attended the second session of the UNCTAD Standing Committee on Poverty Alleviation which met from 25 to 29 July. The Committee adopted a set of recommendations which are to form a contribution by UNCTAD to the World Summit for Social Development, which will take place in Copenhagen, Denmark, from 6 to 12 March 1995. The recommendations are related to the links between international trade, development and poverty reduction. The Committee stressed the importance of improving the GSP with a view to giving the system an "employment-friendly" orientation in terms of awarding preferences for labour-intensive products. Another recommendation emphasized the importance of small-scale manufacturing enterprises and agricultural small-holders in reducing poverty through employment-generation by increased participation in international trade. The Committee also proposed debt-relief by using debt-conversion schemes to mobilize domestic resources. Finally, the recommendations also covered designing measures to alleviate the negative repercussions of structural adjustment programmes on the poor.

HRD PROGRAMME ON COMMERCIAL DIPLOMACY IN ASIA-PACIFIC

As part of a UNDP project "Strengthening Institutional Capacities for Multilateral Trade", UNCTAD has launched a human resource development (HRD) programme on international commercial diplomacy. Developed within the framework of the TRAINFORTRADE programme, it will be carried out in cooperation with a network of universities in the Asia and Pacific region.

Training packages will be developed on: multilateral and bilateral negotiations within the framework of GATT/WTO (tariffs, national treatment, anti-dumping and subsidies, non-tariff measures, safeguards, dispute settlement); new measures under consideration (trade and environment, social clause); sectoral negotiation within GATT/WTO (textiles, agriculture, services, intellectual property rights); other sectoral negotiations (commodities) and negotiations with regional entities: EU, NAFTA, AFTA-SAPTA, NAPEC.

To assist in the development of the curriculum and of course materials, as well as in the networking of institutions in the region for the conduct of the course, UNCTAD organized a regional meeting in Kuala Lumpur, Malaysia on 14-15 July in cooperation with the Malaysian National Chamber of Commerce and Industry (NCCIM) and the Institute of Diplomacy and Foreign Relations (IDFR).

UNCTAD TO HAVE DATABASE ON SERVICES TRADE MEASURES

On 22 July the Standing Committee on Developing Services Sectors decided that a computerized database on measures affecting trade in services be set up in UNCTAD. The Committee considered the database "a very valuable tool for supporting the efforts made by developing countries to participate more effectively in international trade in services".

The database should facilitate the access of services and service suppliers from developing countries to world markets by providing structured services-related information, including on laws and regulations that affect such access. Priority will be given to the inclusion of information on measures relating to those sectors, modes of supply and markets that are of major interest to developing countries, including those which are currently the subject of negotiations in multilateral or regional forums.

SEMINARS ON PORT MARKETING AND CONTAINER TERMINAL MANAGEMENT

UNCTAD, in cooperation with the Government of Belgium, has organized two policy seminars for senior port officials from developing countries.

The first, on the New Commercial Role of Ports and Port Marketing, was held in Ghent from 3 to 21 October. The second, on Container Terminal Management was held in Antwerp from 10 to 28 October 1994. Both events were financed through technical cooperation projects on human resource development being executed by UNCTAD with the support of the Belgian Government and the Belgian port community, since 1981. The objective of the first seminar, which was attended by 20 port officials from 14 developing countries, was to provide information on the commercial potential of ports and to train the participants in the techniques of modern port marketing. The second seminar was attended by 16 port officials from 10 developing countries. Its major objective was to train managers from both the public and private sectors in the development, management and operation of specialized and multi-purpose terminals handling container and unitized traffic.

SEMINAR ON TRADE PROSPECTS FOR DEVELOPING COUNTRIES

As part of the activities for the celebration of its thirtieth anniversary, UNCTAD organized a seminar to assess the prospects and problems of translating the results of the Uruguay Round into trading opportunities for developing countries. The seminar, which took place in Geneva from 27 to 29 September 1994, was financed by the Swiss Government and was held in collaboration with the Centre for Applied Studies in International Negotiations. Participants included scholars, senior negotiators and representatives of international organizations. They broadly shared UNCTAD's initial assessment of the Round as contained in the *Trade and Development Report 1994* and its supporting papers. The next issue of the *Bulletin* will contain a more detailed account of the proceedings of the seminar.

NATURAL RUBBER CONFERENCE TO RECONVENE IN 1995

Thirty-one States participated in the second part of the United Nations Conference on Natural Rubber, held from 3 to 14 October 1994, to negotiate a successor agreement to the International Natural Rubber Agreement, 1987. At the end of the session, 53 out of a total of 67 draft articles of the new agreement had been agreed upon. Crucial remaining issues include: the levels of the reference price and indicative prices; the frequency of the revision of the reference prices; adjustments in response to movements of the daily market indicator price; and the duration of the new agreement. The Conference decided to resume its work in Geneva as of 6 February 1995.

PUBLICATIONS

- United Nations International Symposium on Trade Efficiency – Report of the Preparatory Committee for the United Nations International Symposium on Trade Efficiency (TD/SYMP.TE/PC/3)
- Report of the Trade and Development Board on its sixth executive session (TD/B/EX(6)/2); Report of the Trade and Development Board on its seventh (pre-sessional) executive session (TD/B/EX(7)/2)
- Report of the Standing Committee on Developing Services Sectors: Fostering Competitive Services Sectors in Developing Countries – Insurance, on its second session (TD/B/CN.4/38) – Services in the Ghanaian economy (TD/B/CN.4/Misc.8); Consideration of the possible review of the International Convention for the Unification of Certain Rules relating to the Arrest of Sea-going Ships, 1952 – Consideration of the review of the 1952 Convention on Arrest of Sea-going Ships (TD/B/CN.4/GE.2/2)
- Report of the ad hoc Working Group on Expansion of Trading Opportunities for Developing Countries on its fourth session (TD/B/WG.4/14)
- Intergovernmental Group on Experts on Restrictive Business Practices – Work programme on restrictive business practices including technical assistance, advisory and training programmes on restrictive business practices, and preparation of the Third Review Conference (TD/B/RBP/102); Consultations on restrictive business practices (TD/B/RBP/78/Rev.3); Continued work on the elaboration of a model law or laws on restrictive business practices (TD/B/RBP/81/Rev.3); *Handbook on restrictive business practices legislation* (TD/B/RBP/101); Studies related to the provisions of the Set and consultations on restrictive business practices (TD/B/RBP/100/Add.1); Replies by States and regional groupings on steps taken to meet their commitment to the Set of Principles and Rules (TD/B/RBP/100); The role of competition policy in economic reforms in developing and other countries (TD/B/RBP/96/Rev.1)
- Sustainable development: Trade and environment – the impact of environment-related policies on export competitiveness and market access (TD/B/41(1)/4/Add.1)
- Standing Committee on Commodities – Identification of means by which the competitiveness of natural products with environmental advantages could be improved – Reducing the environmental stress of consumption without affecting consumer satisfaction (TD/B/CN.1/25); Examination of statistics and review of the current market situation and medium and long-term outlook (TD/B/CN.1/TUNGSTEN/10)
- Final report of the Ad Hoc Working Group on Expansion of Trading Opportunities for Developing Countries (TD/B/WG.4/15)
- Report of the Standing Committee on Developing Services Sectors: Fostering competitive services sectors in developing countries, on its second session (TD/B/CN.4/40); Shipping, on its second session (TD/B/CN.4/39)
- Report of the Standing Committee on Poverty Alleviation, on its second session (TD/B/CN.2/11)
- Impediments and disincentives to trade among developing countries: a survey (UNCTAD/ECDC/245); Report of the eighth session of the Coordination Committee on Multilateral Payments Arrangements and Monetary Cooperation among Developing Countries (UNCTAD/ECDC/245); Population and demographic developments in the West Bank and Gaza Strip until 1990 (UNCTAD/ECDC/SEU/1)
- Transit transport systems in East and Central Africa (UNCTAD/LDC/90); Transit transport systems in southern Africa (UNCTAD/LDC/93)

UNITED NATIONS CONFERENCE ON TRADE AND DEVELOPMENT

The United Nations Conference on Trade and Development (UNCTAD) was set up by the General Assembly in 1964 as one of its permanent organs, mandated to promote international trade, particularly that of developing countries, with a view to accelerating their economic development. UNCTAD has evolved into a universal forum with a development perspective, in which member States review the interdependence of economies and of issues in trade, money and finance. UNCTAD is composed of 187 member States, including the 184 members of the United Nations; many intergovernmental and non-governmental organizations have observer status. The Conference normally meets every four years at ministerial level to establish policy guidelines. Between sessions, work is carried out by the Trade and Development Board and its standing committees, working groups and other subsidiary bodies. The problems of the least developed countries and of Africa's economic recovery receive special attention in UNCTAD's work. The UNCTAD staff-part of the United Nations Secretariat-numbers about 450 and is headed by a Secretary-General.

The "UNCTAD Bulletin" is published six times a year in English and French for public information. It is not an official UNCTAD document. Opinions expressed in signed articles are those of the authors and do not necessarily reflect the views of UNCTAD. The designations employed and the presentation of the material do not imply the expression of any opinion whatsoever on the part of the United Nations secretariat concerning the legal status of any country, territory, city or area, or of its authorities, or concerning the delimitation of its frontiers or boundaries. Material may be freely quoted or reprinted, but acknowledgement is requested. Copies may be obtained free of charge from the Editor, Policy Coordination and External Relations Service, UNCTAD, Palais des Nations, 1211 Geneva 10, Switzerland. Tel.: (4122) 907 1234, ext. 74620/75820; Telex 41 29 62; Fax 907 00 43.

ISSN 0259-3181